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Please accept the accompanying copy of
"National Banking Examined," with the compliments of the author. It is the only complete review of the system extant, and is sent hoping it may be useful as a hand-book of finance. The author does not expect it to be the equivalent of valuable space in your paper; though any notice which your interest in the subject may prompt you to give, will be appreciated.

NATIONAL BANKING EXAMINED.

BY

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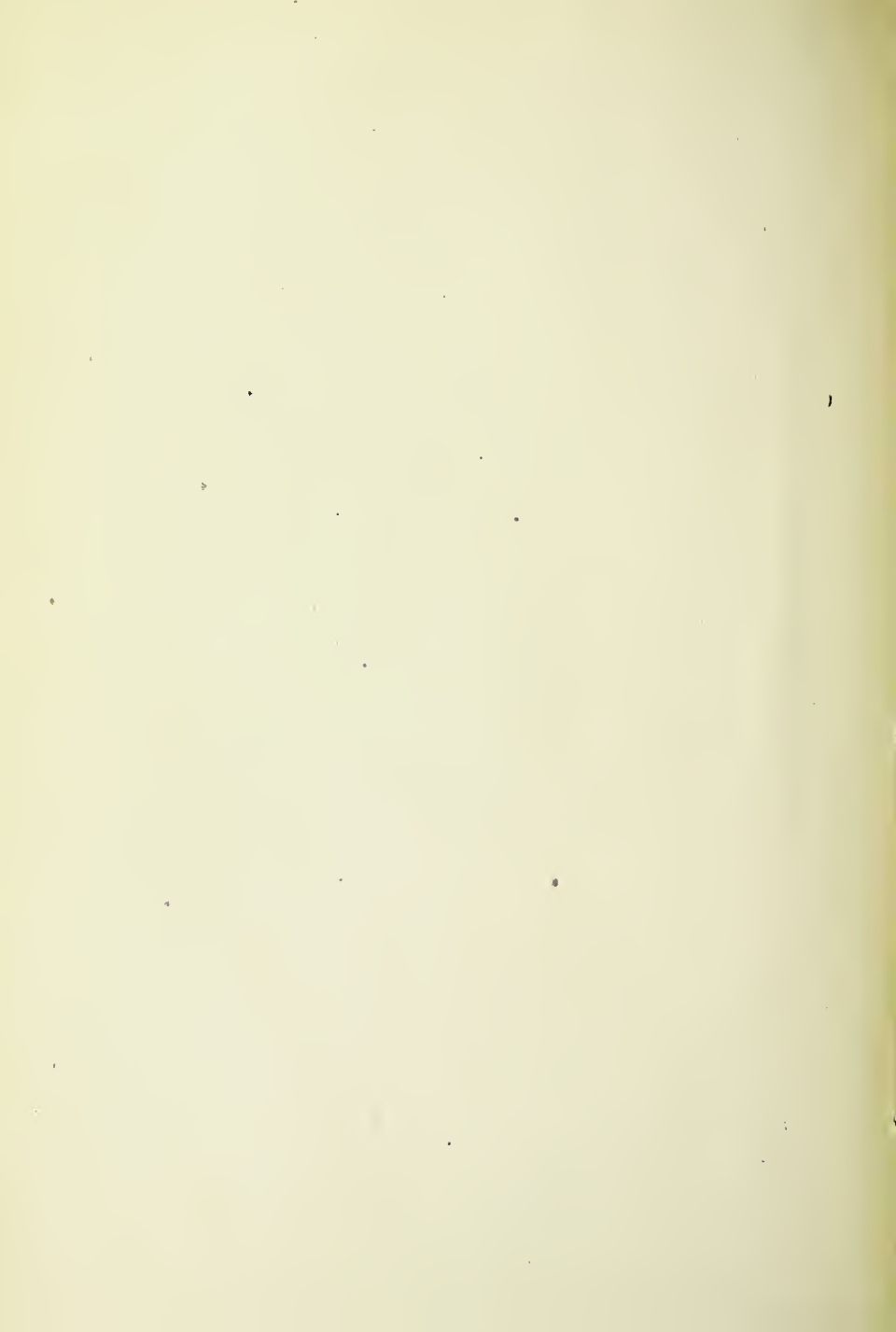
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“Let the Americans adopt their funding system, and go into their banking institutions, and their boasted independence will be a mere phantom.”—*Wm. Pitt.*

“For the salvation of the country we must look to the farmers and mechanics. The mercantile classes are so entangled in the meshes of the banks that they can not yield much assistance.”
—*Gouge's History of the American Banking System, 1835.*



I.

THE PRACTICAL WORKINGS OF NATIONAL BANKING.

"The object of these pages is to protest against the doctrines and conclusions of those who proclaim our method of banking and currency, to be the best in the world."—*Currency or Money*. Samuel Hooper, Boston, 1855.

The advocates of the present national banking system, make for it the sweeping claim that it is the best in the world. Among them we find names distinguished in the field of financial thought, as well as the other fields not less important. But the fact that all the claims made for this system were made for previous systems of federal banking in their day, and found to be false, will make the careful and unprejudiced observer slow to accept the pretensions of this one. And not alone for federal banking has this claim been made. In Samuel Hooper's pamphlet on "*Currency or Money*," (Boston, 1855), he shows that the state banking system of that day, made the same claim to perfection that the present national system now makes. This claim is no doubt made for every banking system as it succeeds the last one. When the United States Bank was in operation, large sums were paid to the press by it for aid in its defense against the Democrats. To what extent this is true of the present system is not now publicly known; but it is easy to get a publisher for anything written in defense of it, and almost impossible to get one for anything opposed to it. Among its principal defenders, are the comptroller of the currency, John J. Knox, Ex-Secretary of the Treasury, Hugh McCulloch, George Walker, the distinguished financialist, M. L. Scudder Jr., of a "league" in the northwest, devoted to proving that no other money but gold and national notes are "honest." But however the others manage about the expense of their publications, there must be serene satisfaction in the mind of the comp-

troller, as he thinks that the people, whom he is trying to convert to federalism in banking, are paying him whilst he writes, and pay also for the printing and distributing of his arguments. Walker gives the chief motive of a political party and all persons, in attacking the national system as "jealousy of the banks themselves, and of the money they have honorably accumulated." Whether it is jealousy or some other motive that prompts him to "compass the overthrow" of the older State systems by making the national "exclusive of all others," he fails to inform us. The great banking interests of the Atlantic cities that bitterly opposed the system at its beginning, now resist any change in it, chiefly because bankers dislike interruptions in the established order.

In the *International Review* for March, 1879, Walker says Chase "builded better than he knew," for his system of banking has thrown "around the business such safeguards as had heretofore existed only to a very limited extent." He further depicts the unsatisfactory condition of the "heterogeneous system of state banks which Chase's National Bank Act superseded." Among the safeguards thrown around banking, the examination by government officials is generally considered an important one. If the comptroller would show, in his report on the failed national banks, how long before each failure there had been an examination and what the report was, it would be a test of what this law has accomplished. I suggested this to the comptroller before his last report, but he thinks it would be no test of the system, but only of the faithfulness of certain examiners. Undoubtedly examination is overrated in importance for the simple reason that the gist of any bank's condition lies in the quality of its discounts, and it would be impracticable to get an examiner who, were the portfolio put in his hands, would be much the wiser. In estimating the value of the custom of hiring an official to watch our banker we generally overlook the fact that there is a tendency to cease to watch him ourselves and leave it all to the hired watchman who in turn needs a watchman. Though publications and examinations may be of value, they are apt to be rated at a higher value than the facts warrant or the case permits them to possess. If Jay Cooke & Co., had not had charters for any bank, but had been private bankers, never examined or publishing statements, experienced business men would have earlier suspected them, and made others suspect them to be undertaking too much when they began the Northern

Pacific Road. Examinations and reports tended to lull every one into security, and thus enabled them to involve more persons in their fall, and create a greater alarm than could otherwise have been done. For some time before failing, a country national bank known to the writer, was paying 15% interest on its time certificates in a state where the outside legal rate is 10%. Disgraceful failures have occurred under this system, equalling the worst under any other. Yet from their published statements, no one could see anything wrong. The weak point in this part of the system is that these banks are all "pets" with the comptroller. He is so ardent an advocate of the system that he is the last person one may look to for the exposure of weakness or wickedness in the system after examination has discovered them. The law intended him for a servant of the people to watch the banks, but he is a servant of the banks to defend them from the people. He is a permanent "whitewashing committee" for them. When Jackson and Benton destroyed the last lot of federal banks before these, what ~~has~~ been before thought sound was found to be "a festering mass of rottenness." In his letter proposing the establishment of a national bank as the sole source of issue of paper money, Alexander Hamilton, of New York, says that the Bank Commissioners of that State, just before the suspension of 1837, reported triumphantly that everything was perfectly sound. Nobody now denies that Biddle wilfully brought distress on the country when the war between himself and Jackson was in progress. The comptroller is lest likely to injure the country in such way than by permitting it to be honey-combed with institutions not properly based and conducted. Fessenden said, (April 26, 1864), " * * *

* * * During a recess of congress the great interests of the community might be left at the mercy of the comptroller of the currency." He thought the president should have the absolute power of removal. The law as it now stands is as it was when Fessenden made this objection. Had it been changed as he desired, it would have left the country at the mercy of the president. He said also of the comptroller, "He will wield an immense power in the country over all these banks with this accumulated capital, and he could in the course of a very short time, if he were disposed to do so, produce the most disastrous effects upon the currency of the country by his own motion." The comptroller at present in office can not conceal his impatience at

the existence of state banks not entirely in his control. He wishes the banking interest of the country to have but one neck and he will halter it and lead it whithersoever he will. The security which we have against his abuse of the power is the same as that of the French against their former tyrant rulers: "The king is too gracious to abuse his power over us."

The comptroller even tries to show that the system is indispensable if we desire banking statistics. The issues of state banks will always be recorded in the states in some form. Statisticians, commercial agencies and others, will always collect the facts and publish them, along with other commercial information, for sale. We will get them as well, therefore, without a national comptroller of the currency, as with him, aside from the objection that it is not the business of the federal government to furnish this information. We get the more important statistics of our annual products from other than federal sources. With his facilities for gathering statistics, why has he never shown how much of the capital now in the national system was already employed in banking and merely changed over to this system from the various state systems; and how much of it is new? Perhaps he does not want it known that it is merely the state bank capital in a new dress; that the state banks of which he and other advocates "think scorn," gave the national system nearly all the strength and respectability it has, and could, by withdrawing, abolish it.

The enormous strength of the sound State banks at the beginning of the war was too thoroughly tested in the assistance they gave in taking loans, to be changed or underrated by the fact that they were not under one system. The national banks hold but little over half the amount of deposits held by the non-nationals. The total deposits in the latter are nearly six times as great as their total capital, whilst the deposits in the nationals are less than one-and-two-thirds times their capital. The people, for whose safety we are told that \$337,000,000 in national notes have been secured, deliberately deposit in state banking institutions and with private bankers \$1,180,000,000 without security. Taking the notes issued by the institutions that Walker informs them have had special safeguards thrown around them, the people deposit the entire volume and nearly three times as much more in other funds in banks that are governed only by their own state legislatures. Surely until the law suppresses all

and forces the people to deposit in the less-trusted national banks, the national bank act must be considered incomplete. This preference of depositors for state banking institutions is not without a sound reason. If by an amendment to the constitution or a decision of the court, the government were to lose the power to create legal tender paper, it might find itself with ninety per cent. of the bonded debt, or about fifteen hundred million of dollars in national notes payable at the treasury in coin on demand. All of the banks in the country have suspended before; it is not improbable that all the national banks after issuing all the currency possible—ninety per cent. of the bonded debt—will suspend. The government could scarcely fail to be obliged to sell the bonds at a sacrifice, and would be a preferred creditor and would make up its loss out of the capital and other assets of the banks, leaving the depositors whatever might be left. It is indeed strange that one should deposit in a national bank under these circumstances where there is another kind equally ~~as~~ good, unless he has confidence in it irrespective of the dangers to the system and all connected with it.

Sherman pointed this out when the bill was first in the Senate. He said the bill holder "has not only a lien on the stock and bonds deposited here, but he has a prior lien on everything owned by the bank. * * * The United States, in any event, redeems the note, seizes upon the property, and has a prior lien on all the property of the bank." Should such a case ever occur the same events that cause it will destroy some or all of the markets on which the government depends for the sale of the bonds, from the proceeds of which it expects to redeem the notes. And better bonds than those now deposited once sold for forty cents on the dollar in coin, and these may yet do so. For the demand may come when war is imminent or is in progress, or under equally embarrassing circumstances. True, the law requires the banks to deposit additional security if the bonds decline so much as to wipe out the ten per cent. margin; but this during the times of paper legal tenders is a farce, and after they shall have passed away will be impossible of fulfillment when most urgently required, and if enforced will be in favor of note holders to the injury of depositors.

Usually suspension is no misfortune to the national banks. Those who before got notes from them are glad to get certified checks at such times. In 1873, when the volume of national notes was less than the legal tender notes they were payable in,

national banks quit paying anybody anything but certified checks. Gold has quit coming to us, greenbacks are to be retired and the increase of national notes now occurring will continue. The result may easily be foreseen.

Hugh McCulloch considers "the essence" of the national system "a circulation perfectly secured and of uniform value in all parts of the United States." It is scarcely proper to so refer to it inasmuch as a direct issue by the government possesses precisely the same qualities. A characteristic of the national system is keeping the notes at par on a one-ninth basis of coin. We can do more inflating, and get more prudent persons to forsake the true principles of finance on this plan than any other ever devised.

Walker says the idea of any section of the country having a sound local currency under State laws "is a stupid fallacy." Its supporters have such company as Nathan Appleton, one of whose sayings has stood as a motto on the title page of the Bankers' Magazine as long as any young bankers can remember, and was made before some of us were born. "Every centre of trade can establish and maintain a sound currency for itself, if it choose to do so. * * * * This was fully proved in Boston, and the circle of circulation controlled by it, during the suspension of 1814-15-16." (Appleton's Currency and Banking, p. 23, 3d edition, 1856.) Appleton was a believer in the advantages of a national bank. The Pacific states maintained a local circulation of coin and would no doubt have had along with it a local paper currency had not federal taxation prevented it.

Banking is a slow, safe, conservative business, when properly conducted. It is, for this reason, not rushed into readily by speculative and adventurous persons. To get men to go into the national system extraordinary inducements had to be offered, or extraordinary pressure had to be put on the men in other systems to drive them out of them. Either is a *prima facie* condemnation of the national system. If justifiable on the ground of emergency, it should be reversed when that has passed away. When this system was under debate in congress in 1863, Geo. S. Coe made the pertinent objection that it was calculated to bring adventurers into the business, a fear since seen to have been well-founded, and an invariable effect of special privileges in banking.

During the long suspension of the Bank of England some of the soundest financialists there fell into the error of thinking that

there could be no excess in the issue of the suspended notes as long as the discount of mercantile bills was confined to undoubtedly sound bills, growing out of real commercial transactions and payable at a fixed short period. This error was fully exposed in the celebrated "Bullion Report" of a committee of the House of Commons. The chief fallacy was in ignoring the effect of the additions to the volume of the circulating medium by such issues. A similar error grows out of our national system. The notes are considered good whether many or few, from sound banks or broken ones, so the natural tendency is to think that the whole debt might as well be in circulating notes as in any other shape. So the banks issue with respect to ultimate soundness, not with respect to present convertibility. And when people get excited and want the money they cool them off with certified checks.

The security feature of the national bank currency is drolly misunderstood. A prominent metropolitan editor dwelt on this feature in conversation lately, yet every national bank note he had was in a bank as a deposit. So if the bank failed, the fact that the notes he deposited were well secured would matter but little to him; and if the notes were not secured and the bank issuing it failed, it could not be charged back to him by his depository bank. The only interest he had was the general one of not wanting his bank to be weakened by losing on the bills of other banks. Many a man congratulates himself that the national notes he is taking in for sales are so well secured: and before night he has deposited them with a private banker or a state bank; or in a national bank where, as a deposit, he has no security for it. Those chiefly benefited by the security of the national bank notes are the banks and bankers: they are protected against each other. Of course the security feature is valuable, but not in the way generally supposed.

Some who are giving up the federal paper money idea, who agree that if gold and silver bullion were freely coined on the demands of all persons, we would have enough constitutional money and could dispense with all paper circulation except coin certificates, still think that the coin should be deposited with the treasurer at Washington, or at some sub-treasury, and the certificates issued by the government. They know that funds are transferred best by bills of exchange and that these bills are paid by shipments of commodities, but think that the holders of the certificates will be secured from loss if the government will store their coin, and

subject to loss if the banks store it. But when they get the government's certificates they store them in bank. It is one of the most remarkable and widespread hallucinations of which there is any record. The banks should store the coin and give its owners certificates fitted for circulation. The legislatures of the states could pass such laws as would make it the safest manner of holding it; aside from the lack of power in the federal government to warehouse the coin solely for the convenience of its owners.

Country national banks do not pay any attention to redemption at all, but act as if their notes were in fact what they have so long been—money. They care little for having legal tenders on hand, and as for coin they scarcely consider it. In the statements for 1879, one bank has nearly \$90,000 in circulation; \$187.50 in specie; \$1,500 in legal tenders. Another has \$447,400 circulation and \$1,611.60 specie; legal tenders \$ 00. These are but specimens of what the statements contain.

Nothing in this system has been more boasted of than its uniformity. Yet the law made a distinction in favor of the National Bank of Commerce, because it was the largest in the country. Its stockholders are not doubly liable as is the case with other national banks. When this question was up, Grimes of Iowa, said: "This idea of making a distinction in behalf of one great moneyed corporation of the country when we are establishing what its friends call a "uniform system of banking," is so exceedingly abhorrent to my sense of fair play, of justice, and equity among the different corporations and citizens of the country that I think it incumbent on me to ask for the yeas and nays," etc. The desire to make these banks uniform was so great that they wanted them subjected only to federal taxation. Fessenden said: "this idea of making * * a sort of Procrustean bed for everything that is done by the United States government * * is perfectly preposterous." Praise is lavished on this system because its notes are uniform in value. For this M. de Tocqueville praised the notes of a former federal bank. But national notes were uniformly worth thirty-five or forty cents on the dollar when the notes of some of the state banks they superseded were worth at the same time par in coin. The continental money was uniform in value until it became uniformly valueless.

The only point on which uniformity is useful, is uniform parity with coin. Who cares anything about the uniformity of bills

of exchange except that they be uniformly paid on presentation? "It is a curious fact, that the general currency of the United States Bank notes, in consequence of their being receivable everywhere in payment to the government, was considered a great evil, both by the bank and the community." (Cy. & Bk'g. Nathan Appleton, Boston, 1841.) But a gentleman of much experience as a state and national banker, assures me that this claim is not true, that national notes when sent to New York correspondents in large quantities are never credited at par, and usually not credited at all until converted.

The charge of heterogeneity against the *ante-bellum* banking business of the country is in reality in its favor. A change from the homogeneous to the heterogeneous accompanies every step in the evolution of life. To prescribe a uniform plan of banking for the lumber regions of Maine, the manufacturing districts of Massachusetts, the importing interests of New York, the fruit interests of Delaware, the tobacco raisers of Virginia and Carolina, the cotton districts of Mississippi, the sugar lands of Louisiana, the stock breeders of Missouri, Kansas and Texas, the wheat growers of Iowa and Illinois, the miners of the Rocky Mountains, and the railroad and other corporations of the entire community, is the acme of absurdity. The one point of uniformity necessary—that the medium of exchange possess uniform and steady value—is impossible of realization for any great length of time and when most needed under this system.

In the "heterogeneous system of banks" before the war, the "wild cat" banks became noted. They issued notes that were to be redeemed out of the profits made from using them. This system is now engrafted on the national and is found no longer in the West, but in New York City. When the banks have used all of their money and their dealers call for more, they create it by certifying checks. The great point of superiority of the modern over the ancient, of the cultivated over the rude, is not calling things by their right names. In a month the city cashier can manufacture as much wild cat paper as all the western states ever made in their whole history. The wild cat system is forever dead in the west, but it has been put in full blast in the progressive east by a banking system whose praises the presses of the government have printed for us *ad nauseam*. The comptroller scolds and threatens, and when the demand subsides the wild cat departments are shut

down until another demand arises. "He knows that the charter of every New York City bank was forfeited last September," said Hon. W. D. Kelly, of the comptroller in April, 1874. "He knows that when they all transgress, and the enforcement of the penalty would break up the whole system, he can not even threaten to punish them but must palter to their iniquity and lawlessness," he continued. Another vice that grew out of the abundance of paper created by the national banks, the antipodes of this one was "locking up" money. The operators borrowed the notes and left them as security for the loans themselves, thus making a tight money market and forcing prices down. This is now forbidden by law; and that the system that caused the vice was used to cure it, is considered by its friends a signal example of its perfection.

One of the most important claims made for this system is that by providing a currency of uniform value in all parts of the country, it prevents loss on exchange to which the diverse values of state bank notes formerly subjected us. Those who make this claim appear not to understand what the term "exchange" covers. Comptroller Knox, in his report for December, 1878, estimates the amount of exchange sold annually at four thousand millions of dollars. The symbols known as bills of exchange only partially register the amount of exchanging done, and their cost is but a part of the cost of exchanging. Some money of course is shipped by express, but the sale of four thousand million dollars of exchange does not mean the shipment back and forth of the entire volume of our "homogeneous" national bank currency annually many times, to meet drafts. It means the exchange of so much raw produce for so much manufactured goods. The cost of exchange is properly the cost of exchanging the things, not that of transferring the symbols. Of the circumstances going to make up the proper cost of exchanging, the most important is the means of transporting the things to be exchanged. In 1860, and before, when produce went forward from the South and West at a much greater expense of money, and especially of time that represented interest on money at high rates, and when manufactured goods came back under the same conditions, the actual cost of exchanging was very much greater than at present. Therefore we are indebted to our increased facilities for transportation and communication, for reduction in the proper cost of exchange, and not to

any banking system. The question is narrowed down then to this point: Did uniformity in the value of the currency save us from loss in exchanging commodities, to which diversity of value in former state bank currencies subjected us? Does it now? Will it in the future? Labor requires capital to support it while operating. The general practice of producers of raw material is to buy goods to a greater or less extent on credit, and pay with next crop. The great masses of our people are producers of raw material and consumers of the manufactured goods of foreigners, or of a small class of home manufacturers at a higher rate than foreigners ask. By buying their goods on credit and paying for them after raising a crop, they have been steadily realizing losses as commodities have steadily declined in price. They bought high and sold low for twelve years—losing on exchange—chiefly on account of the undeterminable value of the medium of exchange, the notes of the government and the banks. The appreciation in the market value of the currency from 1873 to 1879, representing the loss on commodities, is 15%, or 3% a year. In Mr. Fawcett's "Handbook of Finance," he says: "From 1867 to 1872 there had been an average decline in the currency prices of all leading commodities in New York of from 30 to 35%. This, it is true, was mainly the effect of the appreciation of the paper currency, * * * but I think not wholly." (p. 132). The loss from 1874 to 1879 is 15% on four thousand millions, or six hundred millions. From 1867 to 1872, by Mr. Fawcett's lowest figure, it is one billion two hundred millions. The total loss on exchange during the time the national notes have been circulating, then, is about two billions of dollars. Thus the identical agency that we are told has saved us from loss on exchange, has cost us annually four times as much as the comptroller says the loss would now be if state bank circulation were restored.

But it is not in agricultural products alone that we have been thus steadily losing through years. A furniture manufacturer furnished me, unsought, an example. He said that for years he had been turning out furniture that when put on sale, would not invoice enough at market prices, to cover the cost of material and labor. This has been to a great extent true of all the other branches of manufacturing. And the annual value of our manufactures is about four thousand millions. It is probable that the loss on exchange caused by this currency was nearer four billions or eight

times as much annually as the comptroller says the loss on exchange would now be if state bank currency were restored.

Some one may say that the loss would have been the same if there had been only greenbacks and no national notes in circulation. If we grant him this, he is no better off; for the claim on the part of the national bank advocates is that *their system* has saved so many millions annually in exchange.

Under our present arrangement a redemption fund of one-third keeps greenbacks at par, and a similar fund of greenbacks will keep the national notes at par, so that one-ninth becomes a sufficient coin basis for the latter. If \$115,000,000 in coin is a sufficient reserve to keep \$346,000,000 in greenbacks at par, then that amount of greenbacks will keep \$1,038,000,000 national currency at par. Whether there might not be another kind of notes redeemable in national notes, of which three billions could be kept at par on a basis of one-third national note reserve fund and the entire card-castle rest on the basis of \$115,000,000 in coin, is an inviting question for inflationists.

The comptroller and the national bankers seem to think that the steadiness in the value of the public credit used by these banks as currency, as shown by the steadiness and uniformity in the price of inland bills of exchange, is due to the national system and the comptroller. This is equaled by the claim that the credit of resumption and refunding at a lower rate are due to the secretary of the treasury, as some persons seem to think. It is in no sense the national system that saves loss on exchange. It is the steady industry and economy of the people keeping the credit of the government up, that now makes exchange steady in price.

But we can not fully answer here the claim that in time of peace, prosperity and the par of bank notes with gold, the national system will save losses on exchange. The argument on the constitutionality of the system, or its right to exist at such a time, will show us that just at the only time the system has a shadow of a chance to prevent such losses it can not constitutionally exist, if it can so exist at any other time.

Was it want of uniformity in the value of the state bank currency that caused loss in exchange? The law of the cost of bills of exchange is one of the well defined elementary principles of finance. The cost can not be more than that of shipping the money from the one point to the other and in-

suring it. But when the value of the medium received for the bill by the seller of it, is different from that of the medium in which it is payable, this difference affects the price paid for it. When a purchaser of a bill of exchange on New York paid for it at St. Louis in depreciated notes of state banks, it was entirely proper that he should pay a sufficient premium to cover all differences in value. If in Chicago in 1864 a buyer of a bill on New York paid for it in the notes of that state bank in Milwaukee, or those state banks in St. Louis, that never paid anything but coin for their notes, he got a \$250 bill of exchange for a \$100 bank note. But who would say the bank lost \$150 by the operation? It was not diversity in value, or heterogeneity in the state bank currency, that caused loss in exchanging, or loss on exchange, in any form, by using it as a medium. It was instability of value, an inherent vice of all "paper money." The chief difference in the working of the state and national plan, is the greater and more uniform loss the latter can cause. Against the former, smaller communities can avail themselves of their own sagacity for their own protection; against the latter only a number of states together, and specially favored by circumstances—as e. g. the Pacific States—can protect themselves.

To refute this important claim that national banking saves loss on exchange, it is only necessary to analyze it. This claim has always been made by the national bank party from Hamilton's day to ours and has been as promptly exploded by analyzing it. Gouge says, (*Hist. Pa. Money and B'k'g*, 2nd ed'n, p. 62), "It would be as reasonable in a man to wish his flour transferred from Pittsburg to Charleston by the public authorities, as to wish his money transferred through such a medium from Pittsburg to Philadelphia." If national banking would save the cost of exchange it would not therefore be right to establish it, to make the whole people pay what certain dealers and consumers ought to pay. If we had only coin and no paper money at all, "exchange" would be made chiefly by shipments of produce, which would be in favor of producers. If the interior merchants would have to add to their prices to compensate for higher rates in exchange this would fall only partly on the producers in buying of those merchants, but the advantage of getting better prices for their exchange would inure to the producers, as it should.

We need only to look back and see that the reason the govern-

ment endeavored to force out its legal tender notes and the bank notes redeemable in them, was that its credit was below par in coin, and the absurdity of the idea that there can be any saving on exchange by the use of such a currency becomes apparent. In time of peace and with our present facilities for communication and transportation, commerce will always provide against losses on exchange as well without assistance from a paternal government as with it; and in time of war by forcing its credit into the arena of commerce as the only medium of exchange, government adds to the misfortunes of the country by heaping the loss of property upon the loss of life. In war or peace, past, present and to come, the use of the credit of the government as currency in any form adds enormously to the cost of exchange; it is especially injurious in the point claimed as its special excellency. Nothing but the heat of partisan zeal, or self interest, could have blinded so many sensible men to the fact that losses in exchanging can not be saved by a medium of exchange whose value is fluctuating and uncertain.

What would the people have thought if the states had inaugurated systems of banks issuing three hundred millions of dollars in new notes worth only sixty-six cents on the dollar the day they were issued? Yet this was the case of the federal banks in 1866.

It is said that the government would have lost too much by accepting for loans the notes of suspended state banks and the depreciation of such notes in the war of 1812 is referred to as proof. But in the last war it sold its bonds to the banks for notes worth from 35 to 65 cents. Wherein is it better to take one dishonored note from the bank in payment of purchases of bonds than another equally depreciated?

If systems of state banks had been continued and the national system never been started, we would, beyond any doubt, have resumed the use of coin long before we did. The clamor that was raised against resumption by the government would have demanded resumption by the banks. There would have been a rivalry among the banks to resume as early as possible: as Geo. S. Coe has said, they would have had to keep the day of redemption in view. The commercial currency issued by the state banks would neither have fallen so low nor continued below par as long as did the credit of the government issued through national banks; hence the loss of using it as a medium of exchange—loss on exchange—would have been less than it has been by using national bank cur-

rency. Yet in trying to get the bill passed, Sherman assured the senate repeatedly that the "very moment" the war should end these would be specie paying banks. According to the comptroller's report for Oct., 1879, there is but 13% of specie to the notes among them, and a large part of that is in New York to pay duties on imports and not with reference to redemption.

Walker says that substituting national notes for legal tenders "means" the reduction of the public debt to the amount of the volume of national notes replaced. These two operations, usually considered together, are distinct and independent. If the government pay the legal tenders it will substitute coin for them in so doing; so the issue of national notes has nothing to do with it. And whether the bank notes be retired or not it can only get out a corresponding volume of legal tenders in such a way as to increase the debt, by paying them for something. It was always proposed that they be issued by purchasing interest-bearing securities, and that would not increase the debt.

One of the invariable effects of federal banking seems to be the demand that the government be made a bank for the general benefit, instead of chartering banks for the benefit of certain ones. In 1819, Bledsoe offered the following as one of a series of resolutions in the Kentucky legislature: "That it becomes the duty of the general government, and of every individual state composing it (gradually if necessary, but ultimately and certainly), to abolish all banks and moneyed monopolies, and if necessary, to substitute the impartial and disinterested medium of the credit of the nation or of the states." The abuse of any power seems always to result in the demand for its federal absorption, as the abuse of power by railroads and telegraphs prompts the suggestion that the federal government run them, and where partial communism is practiced under the name of a tariff the worst form of communism appears among us, as in Pennsylvania. Nothing is more natural than for the people, on penetrating the disguises of such schemes and seeing that they are for the purpose of using the government credit for the special benefit of a few, to demand that they be made equal in their workings for all.

From 1866 to 1879, during which time the borrowers have had about \$1,500,000,000, the notes rose 30% in value, making the loss to the borrowers about \$450,000,000. The only defense that can be made against this charge is that the loss would have

occurred with any other paper money system. Besides asking us to accept this as true without proof and against probabilities, they confess their system to be no better than others in this respect. Had the government confined itself to borrowing money on the credit of the United States and issuing bonds and treasury notes for its own needs, the banks could, after the war, have provided for the needs of trade, and government affairs and commercial affairs could have sooner parted company. But the new national system of banking so tied them together and mixed them up, that for the government to fund its notes or otherwise retire them was to "organize hell" among the national banks and among their customers. Reverdy Johnson said in the senate May 9th, 1864: "The mischiefs resulting from this system are, that it brings the government more closely in connection with the moneyed interest of the country." As will be shown hereafter, the national notes tended to depress the value of the bonds and of the treasury notes, thus adding to the loss on exchange; and to increase the debt represented by bonds. The error of making the credit of the federal government the measure of all values is inseparable from, and is perpetuated by, this national banking system.

The comptroller says: "The national banks have held almost continually nearly one-fifth of the bonds of the United States, thus increasing the value of these bonds and the credit of the government, so that when recently returned to us in large amounts from abroad, they could be taken at home without a depreciation * * *." It has been the practice of a certain class to "fright the souls of fearful adversaries" by warning them of reckless foreigners ready to sell their bonds back to us at an awful sacrifice. That bonds come back only when needed to pay for what Europe has been compelled to buy from us, and can not spare the money to pay for without cramping herself, is well known. The reason we let any of them go to Europe at a discount, and buy them back at a premium, is that we were not then able to buy them, but have earned the money since—dug it out as bullion and raised crops and sold them. The bonds come back because we have the real value to give for them, not because we are rich in national bank notes as the language of the comptroller would indicate. He seems to think it a piece of good fortune that these bonds bought by Europe at fifty cents could, by the aid of the national banks be sold back to America "without depreciation;" that is, at a hundred per cent. profit to Europe beside interest.

He says in his report for 1879, that the operation of exchanging one set of bonds for another (for that is all there was in the refunding operations), could not have been accomplished except for the national banks. Of course this is impossible of complete proof or disproof, because precisely the same experiment can not be made twice, one under this system and one without it. But we have only to remember that whilst dismembered and carrying on the war, the government borrowed a sum of which the refunded debt he mentions was but a part, paid the interest on it promptly, the national banks not yet in existence, and his assertion is seen to have no particular character but its recklessness.

The comptroller shows annually that the banks make a very small profit out of their circulation, and that hence the government would make no saving by retiring national notes and substituting treasury notes. In his calculation he introduces the "capital necessary to purchase the bonds pledged by the banks," and the interest on it. But the case of the government is not precisely that of the banks. It is superior to them in credit to such an extent that it would not have to invest capital in bonds and pledge them to secure its notes. The cost to the government of keeping out enough of its notes to replace \$337,000,000 of national notes, would be the interest at $3\frac{1}{2}\%$ on a one-third redemption fund of coin, or \$3,931,666. It could take up, or buy on the market, that many of its own bonds and carry the non-interest-bearing paper at a cost equal to $1\frac{1}{8}\%$ interest. What the banks come short of making, in the role of makers and lenders of currency, they must grind out of their dealers some other way. This is not written in advocacy of the idea *per se*, but only to show that as the government is loser and the banks but little gainers by the indirect issue of its credit, it would do better to use it directly if at all. If it is going into the banking business it does not need partners nor intermediaries between itself and its dealers.

The objection is made to treasury notes as circulation that they do not represent value, as circulation should, and as properly issued bank notes do; but that they represent the want of property and are a sign of property destroyed. If this is correct it makes the national notes objectionable in the same way. For they are also certificates of property destroyed, and the holding of bonds to secure them is merely an expensive superfluity. Instead of issuing the bonds on which they are based, the government could

have issued the same volume in legal tenders to the same effect. It could have carried them in the years of suspension without the cost of a coin redemption fund, as it carried the national notes.

How much of the four hundred and fifty-five millions of national bank capital has been paid up, even in paper worth from sixty to ninety-nine cents, and how much of it is fictitious? Dr. Erick Bollman, desiring to show how extensively credit can be stretched and still serve the purpose of money, by banking, said in 1810 that one payment on the capital of a bank was all that was usual to pay in money when the law allowed payment by installment. This practice was common to all systems of banking under state laws and to both Banks of the United States. The rest was paid by *hocus-pocus*. To what extent this has been the case in the present system it is difficult to tell, but that it has been done to some extent is undoubted. One case of a national bank being started on half the required capital, came under my own observation, and it was indeed doubted whether it had any capital. A vender of some of the stock expressed a fear that recourse would be made on him for selling what had no existence. Strict requirements are evaded and actual perjury committed in some such cases. In Gouge's history (p. 44 2d ed'n,) he gives a copy of the affidavit of the directors of the Sutton Bank in 1828, that fifty thousand dollars of the capital was paid up in coin, and the accompanying certificate of the commissioners of Massachusetts that they had examined it; yet this coin was borrowed on their own bills issued contrary to law, and was given back in less than an hour after the commissioners had seen it. Doubtless these acts were not forgotten when the national system came in vogue, and there was never so favorable an opportunity for such operations as when the country was full of speculative properties and of paper money, and choice opportunities for plundering the government had been utilized and general demoralization had occurred. Bank capital should be money. That the six hundred and fifty-five millions of bank capital in the United States is not money, is almost certain. Some of the state banks that became national, had never paid up their capital in money, and some of the new nationals were paid up, wholly or partly, fictitiously. It is said that borrowers pay as much for paper as for coin; but they no doubt invariably pay more. For when notes are issued on fictitious capital or a part of the capital beyond the volume of the

notes is fictitious, the bank must earn dividends rapidly out of which the notes of the stockholders given in payment of capital are to be paid. The bank will offer high rates of interest on deposits and will pay and will encourage the speculative rise in the rate by its loans to speculators. Men of the best credit and engaged in the most legitimate enterprises are the greatest sufferers by this. For if there was nothing but real money in circulation they would be the only ones who could borrow at all and the speculators would be no longer competitors to run up the rates of interest on them.

The old state banking tricks for keeping their bills away from home—for making them fiat money—now belong to the nationals; the most common one being that of sending their bills to a distant part of the country for circulation.

The taxes paid by the national banks are not in their favor as against any other system of banks. And as the comptroller shows how small is the value of the privilege of issuing notes, we may suppose that if deprived of this right the national banks would not for that reason wind up and quit the business, but would continue under the state form and still pay a great part of their present taxes. For instance, they would invest less of their capital in bonds and pay taxes on capital at about the rate now paid by state banks, which is about four times as great as they now pay. M. L. Scudder Jr., ("National Banking," p. 45,) takes this ground, saying: "That capital would, in all probability, continue to pay its state and local taxes as at present." Whatever taxes are needed must come. There is nothing to show that the national banks enable us to pay the taxes that go through them to the government, but eventually come out of their customers, any easier than they could be paid in other ways or under state banking systems. To grant these banks charters because they pay taxes to the federal government is merely another form of selling them charters on the plan of the old United States bank. In 1856, J. B. Congdon, a Massachusetts banker, defended the banks of that state in a pamphlet, and one of his arguments was, "The people, through the tax upon the banking capital, are receiving a large share of the profit arising from the circulation of bank notes."

But whilst these banks are citing the large amount of taxes they pay as a reason why they should exist, they are trying to get rid of paying them. The following is a specimen sent June, 1880,

from a national bank advertising circular: "We, the undersigned shareholders in the ——— National Bank of New York, respectfully protest against our interest in said bank being assessed or taxed as personal property, for the reason that the money furnished by us, was, on the — day of —, entirely invested in United States bonds." The circular continues: "The United States government taxes bank capital (bank shares), but when such capital is invested in government bonds, to that extent the shares are exempt from taxation: therefore we claim the state should make the same exemption." This question was discussed and settled in congress in 1864. Sumner and Chandler claimed exemption for the banks because their capital is United States bonds which are exempt by law. Collamer (of Vt.,) fully answered this, as follows: "But when you undertake to make a law by which you transfer them into banking capital, and enable the man who holds them not to borrow money upon them but to lend money upon them, that is entirely a different affair; that is entirely a new privilege, and one to which, when granted, the government may annex such conditions as it thinks proper." (Cong'l Globe, Apr. 27th, 1864.) The federal government did not exempt from taxation that part of the capital invested in bonds on the ground that it can not tax the bonds; and that it has so exempted the capital is an additional reason why that capital must be able to pay a good heavy tax to the state. But bonds are no more untaxable than United States notes or national bank notes, so the same argument is equally good for the exemption from taxation of all bank capital, for it all consists of notes of one or the other kind, if not of bonds.

It seems to have been the intention of Chase that these banks should pay their taxes as long as the national debt should last. In his letter to the chairman of the senate committee on Ways and Means May 2, 1864, he says: "Under ordinary circumstances there might be no insuperable objection to leaving the property organized under the national banking law subject, as are almost all descriptions of property, to general taxation, state, national and municipal. But in the present condition of the country, I respectfully submit that this particular description of property should be placed in the same category with imported goods before entry into general consumption, and be subjected to exclusive national taxation. At the present moment, the duties on imports form the sole reliance of the government for means to pay the interest on the

public debt. If to these means the taxes to be paid by the national banks shall be added, a most important addition will be made to these resources." (Cong'l Globe, May 6th, 1864.)

The supreme court decided (*Tiffany vs. Mo.*, 18 Wallace) that the national bank act was partly intended to make a market for the bonds. If that was a proper proceeding then, the reverse rule should be put in operation now. Then the government was selling and wanted to create a demand: now it is buying them up, it should remove all artificial contrivances for raising their market value. It should at once repeal that part of the law by which banks are exempted from taxation on so much of their capital as is invested in bonds. This would reduce the price of the bonds it is buying. It should abolish national banking and that would reduce the price of bonds, most probably, more than anything else could.

In the last report of the mint director he cites in affright the fact that six hundred millions of silver now circulating in Europe as legal tender might be turned upon us. This would be welcomed by every body but national bankers, who now supply over half that sum in currency. An examination disclosing the fact that the valuation of one or the other of the metals generally occurs at the time when a federal bank's interests are advanced by being able to supply the deficiency in coin thereby caused, makes one suspect the connection between the two. (See Gallatin's Bks. & Cy., p. 63.)

Nearly all the defenders of the national system say that national bankers will not combine to protect the system. If true, this would be a significant testimonial to its worthlessness. Probably it is a warning to the people that unless *they* defend it they will soon find banking facilities reduced to proportions that will be uncomfortable. The act first establishing the system fell perfectly dead; the banks had to be forced into it. It is the product of tyrannical legislation and will in time show a tyrannical disposition.

The influence of national banking on the panic of 1873 is an important and interesting question, as is that of former federal banks on former panics, and the want of such banks on the panics that occurred when there were no federal banks. Our panics are almost always caused by going into debt for property that is not quickly convertible into money and from which the returns are slower than was expected. "But the money is still in existence, why can it not still be had?" It can. But it has a limit to its capacity to perform work. Its task is to run a given round and

pay debts, the community that will receive it is its sphere of action, and its velocity, of course, has a limit. When it has already reached that limit and its task is doubled by the duplication of engagements to pay, such as is the case in seasons of speculative excitement, it is simply a case of having more to do than it can do; and part of it must be left undone. People generally meet their engagements made in speculative seasons, with borrowed money; and when the engagements have so multiplied that there is not money enough for them all some must go without and must fail to meet their engagements. There lies so much terror in the word "fail", that many having engagements not yet due, think best to get means and keep them on hand so as to be safe. This diminishes the volume of active money, which is equivalent to increasing the task it is already unable to perform. Hence more failures, and by that time fear induces hoarding among those who usually deposit in banks. Dishonest dealers take advantage of the opportunity to hide their rottenness; weak houses think it the best time to plunge into a fate that must soon come inevitably. It matters little then whether the paper money is convertible or not; for if convertible and the banks were able to redeem it, they would be afraid to reissue it; and if inconvertible it is hoarded if it has an ultimate value, and not having this it has no paying power. Then comes a full stop to everything, for there is no money that can be induced to perform any of the task at all. What must be done then? All must go back to a more primitive style nearly approaching barter. Certified checks are issued, and a general going through bankruptcy clears the field. Whatever draws money off from its circuit at such a time, tends to hasten the crisis. Generally before such crises in our country, we have been sending money to Europe largely, some of it for perishable luxuries that we could not afford, and some for such substantial as iron rails. The latter, even when laid in the wilderness where it brought no immediate return, has always remained in the country and eventually made returns on its cost. Such was our experience previous to 1857 and 1873. It is transparent folly to try to obviate this by compelling the purchase and use of domestic iron instead of foreign. This does not keep the money in the county, but by enhancing the cost of the roads makes it more certain that they will not at once pay interest on their cost, and postpones the day when they can make such returns. Railroads that were built when our treasury notes and national bank

notes were at a discount, and bonded in dollars worth from fifty to seventy cents, must now earn enough to pay the same interest on the same amount of dollars worth one hundred cents each. Or rather, we should speak in the past tense; for such railroads have generally been sold to the bondholders, not being able to pay double the rate of interest originally expected.

To prevent panics is a problem that many a financialist has wrestled with, and some pretend to have solved. They think that when the task that the volume of currency or money has to perform becomes too great for it by reason of the duplication and quadruplication of engagements to pay with it, the only thing necessary is to increase the volume. Evidently this is true, provided confidence will expand with the volume of currency. But nothing in nature can be forever increased. The physical law of the "rhythm of motion" applies everywhere. We ride up on a wave of apparent prosperity for everybody, but we must at some time reach the top of the wave: and then we can not stop on it always. Some cause will bring us down, sooner or later. The more solid the currency the less the violence of the waves, and the greater the strength of the crafts. The money used, whether coin or paper, convertible or inconvertible, must possess qualifications that will cause it to be held in a given estimation, and its volume would have to be sufficient to keep up with the increase of engagements. The increase of engagements would only cease when everybody had made enough to satisfy him and retire. If one were to attempt to calculate the amount of gain necessary to satisfy the traders, speculators and business men of this country, he would bury himself in figures. There is no limit to covetousness and ambition. One of the soundest business maxims is, "cut off your losses and let your profits run on." If the volume of money could keep prices from falling, no one would have to sell to cut off losses: if it could keep them rising, every one might hold what he has and buy more. The time would simply come, when having only the product of this year and part of that of former years to pay with, the world would have debts due equal to the product of the world for many years to come. Many speculative engagements are made on hopes that can never be realized, not on what deserves the name of credit. Some one in such cases has paid something for nothing. When the circle in which money runs to pay debts gets too large for it, this

class realizes losses made before but not realized before. The demand for money of any kind that possesses any more value than waste paper, would eventually outrun the supply in any case. So it might as well outrun it when the volume of coin or other money equal to coin, has had too great a task assigned to it. Every body knows that it is not necessary that the volume of money equal the sum of engagements to pay money, because each dollar liquidates many dollars of debt by circulating. But just how many dollars of money are required for a given volume of business, is not easy to determine, because there are so many varying circumstances in different cases. But this matter settles itself automatically by the business drawing the required money from some source, or else accommodating itself to the volume of money procurable. Banks and bank notes alone do not cause panics. They occur where there is no paper circulating as money. But when they occur the banks are between the upper and nether millstones; between those demanding their dues and those out of whom the means of paying must be made. They must crush worse than millstones and be harder, or they will be ground to powder; at least such is generally their fear and the action it inspires. Walker praises national banking because "while thousands of prudent men have been ruined by the fall of prices and the stoppage of production and trade, the banks have only in a few instances had to succumb." (*Intern. Rev.*, Mch., 1879.) This is certainly "childlike and bland." The usual complaint of banks is not that they nearly all break in panics, but that everyone else breaks and they stand. He might have used Gouge's shorter expression by which he told the same story for 1818-1820: "The bank was saved, and the people ruined." (*Hist. Pa. Money and Bkg.*, p. 32.)

The panic of 1857 was brought to a climax by the deliberate action of the merchants, who, refused accommodations by the banks, showed their power by withdrawing their deposits, thus forcing the banks to suspend. The advice to banks to "discount freely" when panic threatens, if it could be followed would no doubt be effectual; but it is not easy to discount when the depositors are running, or threatening to run, on the banks for more than they have on hand. Banking is, to a great extent, loaning one man's money to another, loaning A's money to B. But when A threatens to draw out and hoard his money, and make the bank

give him coin on its bills held by him, it is useless to advise the bank to "discount freely" for B; that is, loan him the money that is gone, or about to go, elsewhere.

The losses of the panic of 1837 are estimated at \$847,000,000, which is not to be considered accurate; but, as the bank circulation was (according to Condry Raguet's *Currency and Banking*), only about one-sixth of that sum, it is evident that the "wild cat" principle has been charged with more than it deserves. Appleton and Gouge charge this panic greatly to the unnecessary contractions of the Bank of the United States in 1834, and its correspondingly improper inflation of 1837. In Appleton's letter of October 12th, 1857, to the *Boston Advertiser*, he says: "The pressure of 1837 was wholly unlike the present. During a period of great overtrade, a few London houses imprudently created an American debt of fifty or sixty million dollars, by giving out their acceptances, to be met by other equally fictitious bills as they fell due. These houses fell into discredit, and informed their correspondents in America, that the whole debt must be liquidated at once, or they must become bankrupt. This was in March, when no remittances could be made except in specie, which the banks were called on to furnish. The New York banks went on for something over a month, when they found it impossible to continue." Professor Sumner says, among other things, of the panic of 1837: "The influence of politics on currency, and of currency on politics, was exceedingly mischievous on both." (*Com'l Crisis of 1837*. Scribner's Monthly, March, 1879).

We hear and read little of the panic of 1825 and 1819 but they were charged directly upon federal banking at the time. In the latter case there was added to the miseries of panic and hard times that are familiar to us, another now unknown, as witness the following cited by a committee of the Pennsylvania senate, Jan. 29th, 1820: "9. The overflowing of our prisons with insolvent debtors, most of whom are confined for trifling sums, whereby the community loses a portion of its effective labor, and is compelled to support families by charity, who have thus been deprived of their protector." (Gouge, *Hist. Paper Money and Bank'g*, p. 34.) Gouge (*Hist. Paper Money and Bk'g*, p. 54), says that in 1825, "the Bank of the United States, after having lent as much as it could to private traders, strained its credit and resources to lend to government, and thereby put more notes in circulation

than the state of trade required." He considered this a sufficient cause for the panic of 1825, though not asserting positively that it did cause it, that being too difficult a matter to decide. Paper money is the same kind of a trap for the community as that of the African, who said it caught the animals "gwine as well com-in'." Inflating it entraps, and contracting it entraps.

Of the suspensions of 1814, Appleton says: "It is a gratuitous assumption, that there would have been no suspension had a national bank been in existence at that time. On the contrary, it is but fair to presume that such an institution, acting in sympathy with the necessities of the government would have been the first to propose it." (Currency and Banking, p. 27.) Albert Gallatin was of the opinion that if the old Bank of the United States had been in operation in 1814, the suspension would not have occurred. (Bk'g and Cy. 1831, p. 46.) Yet he says the suspension was apparently caused by the capture of Washington and the danger to Baltimore, (where suspension began). It is difficult to see what this belief is founded on, or that it is anything else but pure faith that asks no proofs and could not get them if it asked. But what would Gallatin, who groaned over the twenty per cent. depreciation of bank currency in the war, and when invaders were burning our capitol, have thought of a national bank currency beginning its life at more than double that depreciation, and not getting up to as small a depreciation as that for about seven years, as we have beheld in our day?

When the currency was inflated during the war and many engagements entered into everywhere on the basis of dollars worth less than coin, and all this was done by the government, many thought they might expect reasonable consideration from it in the matter of bringing everything back to a coin basis. Whilst consideration ought to be shown to those who have made engagements on the fifty cent basis, it is a very difficult matter to tell just how fast the return to the hundred cent basis should be made, and it is always impossible to get all to consent to the return at any agreed time or rate. But it can not be made at once without great suffering. It may ruin fewer persons to come back from a seventy cent basis to a hundred cent basis in ten years than to make that change in one. This matter, however, is not entirely in control of government. The opinion of the public brings up the value of the government paper, sometimes, irrespective of

special action by the government. The opinion is based on other events and probabilities. It was originally to the interest of national bankers to depress the credit of the government as much as possible, as they were buying it. And since the war the national bank party has always been a rapid contraction party, it being a plain question of getting the direct issue out of the way, and thereby enhancing the interest value of their own and increasing their own. The various attempts to prove that the currency was not contracted from 1865 to 1873 being impossible of accomplishment in the face of the contrary facts, the attempt has been made to clear the contraction policy of any blame for the panic of 1873 by showing that the purchasing power of a dollar was so increased from year to year, that the purchasing power of the total volume of money was rather greater in 1873 than in 1865. Let those who use this argument (especially C. K. Backus, of the *Detroit Post and Tribune*), answer this question: Did the increased purchasing power of paper dollars enable the debtors in 1873 to purchase their own notes, given from 1865 to 1873, at less than their face value? They know it did not. And that was the trouble; for the things bought by giving the notes had to be sold for less than the face of the notes, prices being depressed by contraction. And though it is not clear just how much of the debts incurred in 1865 were due in 1873, the principle worked steadily all that time as well against all who had engagements to meet that had been entered into about 1865 as against all who entered into engagements to pay dollars from year or from month to month between 1865 and 1873. Whilst manufactures and farm products were put out on a falling market, and handlers of commodities were selling on a falling market, their receipts, though of greater power in the market, for purchase, were of no greater power in paying their previously contracted debts. This system stands charged with depressing the value of the government credit for its own benefit lower than it would otherwise have gone, and of contracting the currency without regard to any thing but its own gain. So that it was, these things being true, the chief factor in the panic of 1873. To say that other systems would have produced a panic does not prove that this one did not produce that panic.

The salient points brought out by the study of our commercial crises with respect to federal banking, are these: The worst ones we have ever had occurred in the times of federal banking

and are indisputably chargeable to it, in a great measure. Instead of being able to help the community in such cases it is, to use a figure of our Aryan ancestors, "like an elephant sunk in the mud." Of those which have occurred when there was no system of federal banking, that of 1814 was caused by the war and the New England treason, and federal banking could not possibly have prevented it; that of 1857 did the least injury and federal banking, could not have prevented it, nor was it even mentioned, so completely was the system abandoned and forgotten. So that we have one, the least important, occurring under state banking; and four, the most distressing and destructive in our history, occurring under federal banking; (that of 1814 left out of both sides as a war crisis), the last, greatest and worst being under the present federal banking system and in great part caused by it.

To sum up: Only where the vaunted benefits of this system turn out upon examination to be unparalleled injuries, can it claim to be peculiar. In its really beneficial features it is nothing more than a copy of other systems which, if undisturbed, would have made it unnecessary. The figures show vastly less confidence in it, on the part of the people, than in the other banks; and an inherent danger in it to its dealers, shows the reason for it. Its natural tendency is to improper inflation. It is a leech on the government at all times and impotent to aid it when aid is required. It has revived old financial vices and invented others. It depressed other property to a resumption standard, but was an obstacle to resumption. Its claim to have been a benefit is preposterous; and upon ample experiment it is condemned. Forcible legislation was necessary to get it into operation. This was enacted by a fractional congress, amid arms, when laws were silent. Careful and honest examination of its practical workings show that its claim to being the best system of banking we ever had, is not made out, and cannot be.

II.

WHY CONTROL BANKING THROUGH FEDERAL MACHINERY AND OTHER VOCATIONS THROUGH THE STATES?

“Why should not men select the corporation or individual with which they will deposit their money as freely as they select their doctor, their lawyer and their clergyman? Why should not the people select the banker with whom they will intrust their funds just as they do their grocer, their shoemaker, their tailor and their dry-goods merchant? Whence does the government derive the paternal right to regulate these matters for them?”
—*Speech of Hon. Wm. D. Kelley, House of Representatives, April 4, 1874.*

“Banking is but a trade, and demands to be left unmolested, merely exposed to natural influences.”—*Henry Seligman.*

What is there about the bank that makes it proper, upon common sense principles and expediency, to take it from among other commercial institutions controlled by the states, and charter it alone by the federal government? Does it differ so materially from them as to require it in the nature of things? In the centennial address of Geo. S. Coe to the bankers' convention, he traced the pedigree of the bank, on its American side, back to the “country store” and showed them to be essentially the same thing. He said: “Let us inquire how banks naturally grow out of the necessities of society. No sooner does a new community grow into numbers and in variety of productions, and begin to supply its wants, than it naturally seeks an expedient whereby it can barter and subdivide its industries, by some mode of exchange other than by the use of money, of which it generally has little. Until the time comes to form a bank, *the country store* is the chosen spot where the deposits are made, in products at agreed value and each one is duly credited to its owner, to be drawn out in merchandise to the equivalent value, either by himself or it may be transferred in whole or in part by written orders or checks to others.

Here the identity of each article deposited is lost in the mass, and passes under the general name of its equivalent in money. Henceforth these various commodities in trade are all called *dollars*, but the barter is none the less real. The only substantial fact consists in this, that so much human industry expended, lies behind each transaction. The written papers may all be destroyed, the facts remain, and the record may with greater or less difficulty be again restored. It is apparent that, by this simple device of concentration, the exchange of commodities is facilitated and subdivided almost beyond conception. Now if, instead of recording against the name of each depositor the credit, by which he may himself draw out or transfer to others its value, that merchant were to divide some such deposits into smaller portions as desired, giving for each one a written paper, promising upon its return to pay the specified value to any bearer in merchandise, he would at once create circulating notes. These notes could pass from hand to hand in that community, properly effecting all intermediate exchanges between the people, without further trouble, and each owner, whether of the credit upon the books of the merchant or of his *separate* promises to pay, when he transfers it into other hands, actually passes over his equitable share in the miscellaneous goods which the store contains, at its money value, each check or each note being in fact portions of loads of hay, or other products, or of family stores, for which they may have been exchanged. The merchant is a simple trustee of the citizen, performing a necessary service upon shares, and issuing and recording upon papers, his engagements with numerous parties, in the most convenient manner; exchanging and renewing his stock from within and without, supplying the outside world with what it desires, and bringing into the place other equivalents, whether of necessary things or of money itself. And thus villages grow into towns, and towns into cities and the people are enriched by labor, *upon a specie basis*. And here we have, in embryo, the bank of France, of Germany, or of England. The difference is one only of degree and of development."

Upon the nature and origin of currency he continued: "In all this simple device for exchange and distribution of labor, *currency*, not money, is created, and its vitality consists, not at all in the device itself, but solely in the fact, that *it has given currency to the fruits of industry*, which otherwise could not be so readily

moved. * * * * There is no important difference between the two forms of currency supposed, whether represented by a standing credit to a specific owner upon the merchant's books, or by his circulating notes of hand. * * * * With *the deposit* he avoids the risk of loss attending the personal possession of a piece of paper. With *the note*, the holder has the same merchandise as security, with only the superior advantage that he may transfer the property by simply handing over the paper, and in smaller transactions, this is most convenient. It is especially so for those whose reputation in the community will not admit of their passing a check, but who may pass the name and responsibility of the merchant where it is unquestioned. * * * * But whatever slight difference there may be it is all alike—*currency*.

* * * * *
The function of general accountant for the whole people, which one merchant-banker has hitherto discharged, can now no longer as conveniently be exercised by either one of those who participated in the exchanges and trade of the place. * * * * But its substantial character remains the same, whether performed by a banker, resting upon his individual character and responsibility, or by a bank combining many persons. The service required is indispensable to be done. * * * * Those who do it stand in the same relation of usefulness to society as the baker, the carpenter or the blacksmith.

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“Go into a well-conducted bank and examine its contents. They consist for the most part of paper promises, which in themselves are worth nothing. But when you touch its portfolio, you handle an untold amount of toil and sweat, of solicitude and care, of industry and self-sacrifice, which lies behind these writings.

* * * * * Each promise has attached to it an invisible line, running out into some community, to which is connected some article of merchandise going into market. These apparently valueless papers are thus tied to innumerable products of industry, which are needed to gratify the desires, tastes or necessities of men. They thread their way from the bank through every store, bind every article with moral cords to its special obligation, follow every form of transportation and travel by land and by sea, and command every possessor upon the peril of his reputation and of the forfeiture of his good name, to exchange every article pledged, for

others of equal value, and faithfully to account for his stewardship to the bank; and this by generations of experience has proved to be just as safe, as when the country merchant held in his hands both promise and pledge."

But when along with the general evolution of society, the advance of the village to a city, the country store has grown and separated into great stores dealing in special lines and into banks of deposit, discount and issue, by what rule of common sense or utility do we separate them so far as to place the merchant under the state constitution and the banker under the federal constitution alone? Evidently there is none. There are some who, temporarily holding positions as public servants and administrators of the affairs of the people, imagine they are no longer of the people but superior to them. They call themselves "our rulers,"—a name that has no place in our system—and begin ruler-like to grasp for the purse, knowing that the sword is always for hire. This is their reason for wanting to take banking from among the other vocations and turn it over to the federal government entirely. In other cases it is to ancient superstitions, to the misuse of language and to the association of ideas, that we must attribute the belief that has lately grown up that it is proper so to do. The promises of individuals, corporations and governments, to pay money, have come to be called money and thought of as money; and as the sole power to coin money has been delegated to the federal government, some think that it should have the sole control of all forms of credit that we have chosen to misname "money." A compact statement of this fallacy is contained in a letter to the author, from Mr. Buckner, of Missouri, now chairman of the Banking and Currency Committee of the House of Representatives at Washington; and as it is the same that he used in his speeches it is no breach of privacy to quote it here.

"It is part of the sovereign power to issue money, and whatever is substituted for money and performs the functions of money, should be under the direct and immediate control of the sovereign power."

This is used by him in his advocacy of the idea of making the treasury a bank of direct issue. As the issue through the national banks is but a variation of the same idea the two can not well be separated. The meaning of this is that as the government acts in the matter of money, so it should act in regard to

credit used as circulation or currency. The tendency of lawyers is to trace the rights of man back through a long line of reluctant concessions wrung by the people from rulers who claimed to have received all power over them, from a superhuman source—"the grace of God." The rights always belonged to man, were taken from him by force, and he is slowly recovering his own. This erroneous teaching causes men still to talk about the power over money being "incident to sovereignty." If so, we would not have conferred it by the constitution. The exercise of the power to coin brass or other base metals, and call it money, as kings have done, has no connection with our principles of coinage. The pedigree of our coin dollar runs back to the private mint or assay office of the Count Von Schlick of Joachim's *thal*. The money mentioned among the Hebrew patriarchs as "current money with the merchant," was no doubt current only on account of its intrinsic value, and not because of any royal stamp. The natural right of every man is to get the weight and fineness of his bullion certified wherever it best suits him, or to do it himself if he can acquire the necessary reputation for reliability. Simply for convenience we have made it the duty of the federal government to perform this service for all. Before the attempt to abolish constitutional money by act of congress, this was as plain to most men as to the fathers, who in establishing the mint, never dreamed of attempting through it to nullify any part of the constitution. But as the attempt by Bland to revive the constitutional money, resulted in a bill to run the mint on the communistic plan, just as Hamburg once had a drug store, for profit, we must in this illustration, consider gold only as money. Let us apply the doctrine. No creditor can be compelled to take uncoined bullion, even if it is worth intrinsically as much as the debt amounts to. The debtor can send his bullion to the mint, get it coined and its value thereby certified, and then it must be accepted by every creditor. But the government has no property in it nor control of it. It gains no more title to it than it gains to all the produce of the country by fixing the standard of weights and measures by which the quantity of that produce is determined. In order to act towards the paper substitutes for money as it does toward gold, the government ought to have an office, and stamp all the bills of credit of individuals or corporations that are "substituted for money, and perform the functions of money." Credit is not as

easily tested as money. But if tested and determined to be good, it would then be the duty of the government to stamp each quantity of credit and return it to the owner; and all into whose hands it would come, could use it thenceforth as a circulating medium. To perform the corresponding function to assaying in the coin department, we would need a seer in the credit department of the treasury, who, as each individual would come in to get his bills of credit stamped with the stamp of the government, could look into the future and see which ones would always redeem their bills. As A would come in, the seer perceiving that he would always redeem his bills of credit to the extent of one hundred dollars, would put the seal of the government on that much of his paper. Casting the horoscope of B he would find him safe for ten thousand, and would stamp so much for him, and so on with the other applicants; and the bills would be issued in denominations to suit them. Just so one man now hands in a few nuggets, worth a hundred dollars, and another a gold brick worth a thousand, and the mint returns to each, coins of the desired denominations. But as it is impracticable to get a seer, or an expert in credits, able to tell whose credit is good beyond peradventure, we could only arrive at that degree of confidence in the credits necessary to enable them to circulate as money, by requiring each one who desires to use his credit as circulation, to deposit with the government some valuable and easily convertible property. With this property in its own hands and itself made the agent with power to sell the pledge and pay the bills of credit if the promisor do not, the government could safely stamp so much of the paper of the owner of the credit as equals in value the property left. After looking over all his property, the man wanting to issue his bills of credit to circulate as money, would find that it would suit best to pledge government bonds. So he would leave his government bonds in the hands of the government officer, who would stamp a like amount of his private notes and return them to him. His bills of credit would then circulate like money, and the terms of Mr. Buckner's proposition would have been strictly complied with. The national system, if the national notes were simply the notes of the banks and the government were only the trustee, would also be a strict compliance with the terms of his proposition. But the need for currency will continue long after the national debt is paid, so the person desirous of turning his credit into

money as he turns his bullion into money, must either be unable to do so or else must be allowed to deposit something else besides bonds of the government as a pledge that he will redeem his notes. This system should not depend upon anything but the proper wants of those who want currency. The United States must therefore accept the commodities or labor or lands or promises of those who want to issue bills of credit, and stamp their bills; and must hold the labor or commodities or lands or promises until the notes are paid by their makers, selling them if they fail. In order to do this the United States must assume the function of exchanging its credit for labor and commodities, and to answer the wants of the people it must so exchange its credit whenever anyone is desirous of exchanging labor or commodities, and not confine itself to so exchanging its credit to such times as it needs the labor or commodities or money for war purposes, or any other purposes of its own. Both of these parties are trying to reconcile constant wants with inconstant supplies. They do not generally demand that the government be formally declared a bank of issue forever. Britton A. Hill is the only writer of note consistent and bold enough to avow this principle and contend for it. The others are forced to use expedients to accomplish their purposes: the national bankers try to extend the debt in refunding and others try to get back losses on the pay rolls of the soldiers paid now by new issues. To exercise the power over currency thus glibly laid down for the government, it would have to be a labor contractor and a dealer in real, personal and mixed property. It is easy enough to lay down financial principles in such general terms as will answer the purposes of a stump speech, but to put the details in practice is scarcely possible in the case of any of those that are proposed nowadays. In the three cases of federal banking in our history there has been a pretense of using bank notes, but there has really been nothing, or almost nothing, but the public credit in the notes. In the present system there is nothing but the public credit in them.

In saying that the same power that issues money should issue circulation it is evident that Buckner does not intend that we shall manage private bills of credit as we manage private gold bullion brought to the mint—do with credit as we do with money. He intends that the whole people shall put their hands to a promissory note to be used as a circulating medium; or, which is the same thing, a government officer acting under a power of attorney from

all the people shall issue a great number of such notes, of convenient denominations, and pay them out as money. If we were to manage money as he would have us manage credit, each one would have to contribute so much gold to the government. This fund of gold it would coin, and no other gold could be coined on the demand of any private person. That is the way we now manage silver. Instead of each person making a direct contribution to the fund, our agent, the government, takes bills of credit, which we have all given, buys silver bullion with them and coins the bullion into money. One objection to this arrangement is that it does not answer the wants of trade and the convenience of the people in respect to the volume of money got into circulation. There is only one way to get the money thus owned by the government into circulation, and that is to pay it out on appropriations for the expenses of the government. There may be a great demand for more circulating medium to answer the needs of trade, but it can not be got into circulation except through government expenditures for government needs. And the needs of the government and those of trade do not often run so that the former can incidentally relieve the latter. More frequently they run counter to each other. This is precisely the objection to Buckner's plan of having all the people sign a promissory note, or, which is the same thing, having their attorney, the government, sign a lot of bills of credit, for use as money to the exclusion of all other bills of credit. They would not pour out into circulation in response to the demands of trade unless the government loan them to those engaged in trade. If the government loan them it must have security, and the best security for such loans made by the government to individuals and corporations would be government bonds. Walker has shown that issuing notes directly from the treasury to answer the demands of trade would only be another form of the national bank system. Their idea seems to be this: A sufficient volume of credit to supply the wants of trade, and uniform in value in all parts of the country, can not be got together and utilized except by using the public credit. This is not true. It is not necessary that men should have the use of the public credit to enable them to carry on their commercial transactions with each other.

Reference to Coe's explanation of the nature of currency, shows that the commodities make the currency. If the real thing is there, the owner of it in getting the bank's bill in exchange for his

own note merely gets the bank to endorse for him. There is no more reason why the federal government should be surety to him than that the bank's bill is good than it should be surety to the bank that his note will be paid. It may as properly do the latter as the former "for the wants of trade," and in that case must become the holder and handler of the commodity, out of which the transaction grows. (An important point should be kept in mind though it is not necessary here to elaborate it. In a normal condition of affairs there will be so much money present that the owner of the commodity will get money for it at once and circulate it in purchasing what he wants, and hence need not go through the expense and form of giving the bank his note and getting its bills and circulating them by purchasing what he wants. In other words, the currency analyzed by Coe, can only properly be a medium of exchange supplemental to money, when there is not enough money to perform the required service. The tendency of all systems is to drive out money and use paper that costs the borrower as much as money.)

In thought we associate money and currency so closely as to consider them the same thing, and the wording of the doctrine laid down by Buckner is well calculated to catch the attention of superficial thinkers. The treasury is now the bank of issue; the national banks are brokers, handling the public credit used as circulation. They borrow it on deposits of bonds and pay one per cent. per annum for it and lend it in smaller lots at the rates of interest allowed by the local laws for the use of money. This is national banking. Another party demands that the government confine not itself to lending to these brokers, but that it lend to any one who applies.

This was substantially Kelley's inter-convertible bond scheme. He wanted it so that any one could convert his bonds into currency at any time and to any amount without organizing a bank for the purpose. On the national bank plan the redemption of the notes comes primarily on the banks. On the other plan the redemption would fall entirely on the government, and it would reserve the option of redeeming in coin or in interest-bearing bonds.

The general proposition on which the demand is made that government paper money be the only paper money allowed, when reduced to its most convenient shape is: *The United States attest the value of all private gold before it can circulate as money; therefore...*

the United States should not allow the circulation of any credit as money but its own. This is the basis of the issue of the public credit as currency either directly or through the national banks. It is a syllogism of the categorical class, in the inductive manner.' But the conclusion necessitated by the premises, is quite different from the one given. It is: *The United States attest the value of all private gold before it can circulate as money; therefore, the United States should attest the value of all private credit before it can circulate as money.* The proposition that the currency ought to be furnished by the federal government because the coins are struck by it, is therefore the well known fallacy named in text books of logic the *ignoratio elenchi*, or the irrelevant conclusion. As a general proposition, the fallacy is dangerous, but as a rule for constitutional construction, for inferring a power not expressed from an express power, it is worse. As we have just seen the inconvenience and almost the impossibility of the United States attesting the value of private credit intended for circulation, the conclusion is that the United States should be antagonistic to the use of any credit as money; should confine its efforts to preventing coin being displaced by credit money of any kind, or confining credit money to the narrowest limits necessity can accept. The belief that the government imparts to money its value by legal enactment, like the belief that the world is a level plain, will probably always exist in the minds of some persons. In trying to excuse our fathers for the circulation of continental bills, Gouge cites the prevalent opinion "that money was something that derived its value from the authority of government." "Primeval man" will probably always exist right among us, and with him, primeval ideas; and so will all intermediate grades of men and of ideas.

The term "issue" is often used to cover several actions of totally different natures. And paper money is "substituted for money and performs the functions of money," to a less extent than is generally supposed. It is the coin ultimately to be got for it that gives paper money its power. Where it becomes really a substitute for money instead of a promise of money, its valuation by the community falls at once. Unless money backs it, it can not perform money's functions. We saw the attempt to perform the money function of a standard of value, by United States notes. It scarcely came nearer succeeding than would an attempt to use the column of mercury in a thermometer as a linear meas-

ure. The difference between that measure and a steel tape is about that between coin and any credit: neither measure is absolutely unchangeable, but one is very much more so than the other. The summer of prosperity that keeps credit steadily at a great height or elongation, may be a long one; but the winter of disaster will certainly come and change it. Chief Justice Chase, in the case of the People of the State of New York, ex rel. The Bank of New York vs. The Board of Supervisors of the County of New York, delivering the opinion of the court, says: "Nor is it easy to see that the taxation of these notes, used as money and held by individual owners, can control or embarrass the power of the government in issuing them for circulation more than like taxation embarrasses its power in coining and issuing gold and silver money for circulation." Here is an evidence of the same mental confusion about money and something substituted for money. In coining money, the government stamps the gold of private owners; in issuing United States notes as money, it exchanged its own credits for value. If these are untaxable, it can get more of the value for which it originally issues them, but it is no concern to it whether the coin owned by private persons is subject to state taxes or not, or at least its interest is much more remote than in the case of exchanging its own notes for value. The government does not furnish or issue weighing scales and yard sticks to whoever wants them: it fixes the standard of weights, measures and values. Its duty in respect to coins is the same in essence and in fact as this duty; but it goes further in the matter of a standard of value, by specified power given to it, and attaches to each piece of bullion, the certificate of its weight and fineness.

It is strange that any one who has analyzed the commercial operations by which currency grows, or who has looked over the history of bankers' bills and seen how the circulating note grew out of the bill of exchange and is essentially the same thing, can suppose any government other than a commune can properly issue currency. Some who see and know all this, are deceived by the subtle disguises of the national currency act. As we have seen, Coe assimilates the deposit and the bank note perfectly. Gallatin was of this belief and noted the differences between a bill of exchange guaranteed by every one who endorses it, and a bank note for whose payment the bank alone is responsible. But so far as the bank, that intends to, and always

does pay, and the owner for the time being, who expects to and always does receive value promised (where there is no failure), are concerned, the differences are unimportant; the main fact in all three is the same. The bank note is purposely fitted for everybody to use: the deposit and bill of exchange are purposely *unfitted* for everybody except certain ones to use.

In his pamphlet published in 1831, called "An Examination of the Banking System of Massachusetts," Nathan Appleton says: "The issuing bank notes for circulation is incidental to the business of banking, but does not make a necessary part of it." In Kelley's speech quoted at the head of this chapter he says, "the power to issue money (meaning paper money) does not inhere in banking." And Buckner, in the letter referred to says, "it is difficult to rid ourselves of the idea that issuing money is a necessary element of banking," (he also meaning circulating notes). Does it inhere in government? Is it a necessary element of government? Can it ever properly be practiced by governments for any other reason than a desperate necessity for providing for their own needs when every other resource has failed?

The powers of every just government are derived from the consent of those whose public affairs the public servants manage and administer. Those who recognize the truth of this principle, cannot believe any arrangement to be properly a government at all in which there is a ruler exercising powers not thus derived. Between such rulers and the people there is a constant struggle to get power away from each other. Every such government is dual in its composition. But governments that are only arrangements for carrying out the wishes of the people, are monistic. In them there is but one source of power. If the people act upon the rule of justice among themselves, there can be no cause of complaint. In nearly all the dual, or pseudo-governments, the rulers have claimed the right to monopolize some branch of business and carry it on for profit, or farm it out to individuals or corporations. In monistic societies it would be right, as among the individuals composing them, if all agree to and prefer it, to allow no individual to carry on any business for profit, but to carry on all business as a government and share the profits among all. Or they all have a right to agree together that a part of the business projects be undertaken by individuals at their will, and a part be reserved to be

undertaken only by the whole people as a government. But insofar as the government (the people in that capacity) engages in business projects, it is communistic. Communism does not necessarily mean the knife and the torch. Peace, happiness and thrift sometimes co-exist with it. The study of society, however, has lead those who wish to act justly, to conclude that it is best for each and all that each individual be allowed to carry on his business as he sees fit, and that the government compete not with him in it. For communism, though right as among ourselves if all agree to it, is wrong as regards nature. She has set the seal of condemnation on it. It is incompatible with the highest development of society. To reach that, individualism must be the rule, and all changes must be growth away from communism. Communism corresponds to low organization among animals, such as having one organ for all purposes; individualism to high organization, or the possession of a special organ for each separate purpose, as is approximately true of man. Going back into communistic practices in societies professedly acting on the principles of individualism, works greater injustice than complete communism. For in such a case the government taxes individuals for its support, yet enters into competition with some of them in the callings in which they engage and in which they are best fitted to succeed; or monopolizes some branch, or the whole, of such callings, and thereby renders it more difficult for them to contribute their share of taxes for its support: but a complete commune means the consent of all and the equality of all in respect to contributions and benefits; such at least is its professed object. But it is impossible for all contributions to be made equally, and if the benefits are equal then what is given to some must be taken from others. Hence the distinctive feature of practical communism, is taking the property of one and giving it to another. Under such conditions the whole force of an abler individual will not be exerted to gain a surplus, because he must give it away; nor will the whole force of a weaker individual be exerted, for what he lacks the common fund must supply. Carrying this to all the individuals, we see that the whole power of a commune will never be exerted, and like muscles not sufficiently used, it will not develop, but will retrograde. A true and just commune is only possible when composed of individuals of uniform ability and disposition: which is an impossibility. Where each one is secure in the enjoyment of the fruits of his

labor, the greatest force of society is exerted; it grows strong and able to resist attack, and to help when help should be given. It is plainly an error to carry on any branch of business communistically, that is, through the government, when it can, as conveniently to the whole society, be carried on by individualism, that is, by each one who so desires engaging in it alone, or by voluntarily associating with others for the purpose. Common sense tells us that, as far as is possible, every organ of society should be exercised in order to produce equal and natural development; that none of its organs should be atrophied by disuse, or by the exercise of its functions through some other organ or the whole organism, or by otherwise robbing one organ of its due to give to the others. Liberty is nature's wisdom; law is often man's folly. Liberty is the sun, toward which all life, from that of the plants in darkness and lowly places, to man in all conditions, turns. Individualism returns man his birthright of liberty in the midst of the protection and pleasures of society. Communism demands that man entering society for the protection of his liberty, shall begin by surrendering it. If this is not correct; if communism is allowable, is beneficent, when it enters partially into the administration of the external affairs of a government, then the advocates of communistic banking are under obligation to show why the government should not be a complete commune. Whenever our government enters the commercial arena and engages in business for profit, and competes with individuals and corporations in any calling, it thereby forfeits its character as a proper government, for it no longer rests on consent. All the needs of our government ought to be supplied by the individual citizens and corporations in the way of taxes, excises, etc. When the money is needed in larger quantities than the people can conveniently pay at once as taxes, we can extend it through a series of years by borrowing. In the exceptional cases of the postoffice and mint our government undertakes what are properly private commercial projects, not for saving nor for profit nor because either is "a high act of sovereignty," but simply for convenience. Both are acts of servitude performed by the hired servants of the people. Neither is properly the act of a government, and both will doubtless be eventually given up to whomsoever wishes to carry them on.

Banking is a private calling, and no more the business of a government than any other calling whatsoever. Having traced the

pedigree of the bank on its native side, let us trace it on its foreign side. The banker was originally a man who sat on a *banco*, or bench, and kept a stock of coins, giving to strangers, traders from abroad or religious pilgrims the coins current in his own city for their coins that were good, but that on account of their strangeness would not pass readily in payment of lodgings, food, clothing, or other purchases, and charging a certain sum for the accommodation. He also lent them on interest, though the taking of interest was practiced before metals acquired additional value by their use as mediums of exchange and standards and representatives of value. But as coins came to represent needful commodities so the promises of coin, or credit, comes to represent the coin and re-represent the commodities; and the banker lends his current credit to those whose credit he knows to be good but not current, or exchanges credit with them as he formerly exchanged coins. In the modern bank the customer leaves his promissory note for a lump sum and gets in exchange the promissory notes of the bank for the same sum, less the interest, divided up into small notes. This is a part of the banker's business that he can strongly claim as his ancient and natural right, the essence of his vocation, Buckner and Kelley to the contrary notwithstanding. This part of the banker's business supplies an early and frequent want of every industrial community. Thus, adapting himself to the changing environment, the banker has come down to our day, an example of the survival of the fittest. It is the natural right of every one to sit on a bench and exchange his good current coins for uncurrent ones, or to associate himself with others and occupy a large house and loan his good current credit on the uncurrent credit of others, and charge them for the use of it. In his "Considerations on the Currency and Banking System of the United States," (p. 28,) Gallatin says: "It is difficult to distinguish a note on demand drawn by a private individual from a bank note, in countries where every individual is left at liberty to throw such notes in circulation as part of the currency. * * * *

* * The same liberty seems to have originally existed in the United States, but has subsequently been restrained by their several laws to incorporated banks." Thompson's *Bank Note Reporter*, in congratulating the nationals on their success in October, 1864, said: "A state can no more emit a paper currency than it can coin money. A state can no more charter institutions

to emit paper currency than it can grant power to coin money." Here is the same superstition that the king got his power from the grace of God, and grants it to his subject. It would be as true to say that an individual got the power to give his promissory note from the state; or that he got it from the king; or that the king never could have given his own promissory note except for receiving a grant through the grace of God, and the subject never could have given his note except for the two grants. Nearly every writer in favor of exclusive national control of banking rests his argument on this impious and fraudulent claim of kings. The natural right was acknowledged by the states. They did not attempt to deprive men of it, but on the contrary they offered an inducement to those who had credit to use it in that way: they limited their liability. Banking laws only prescribe the manner in which the right shall be exercised. Their only grant is that of partial instead of natural liability. They grant also to all who circulate the notes complete immunity from any liability in the nature of a vendor's guaranty that the thing sold is actually what it purports to be.

It is not a sufficient reason for depriving men of the use of their credit in a certain useful, legitimate and profitable way, that pretended credit has been used for purposes of swindling in imitation of that way. The injustice of so doing is still greater when we perceive that the swindlers could never have floated their pretended credit but for a certain standing given them by legislative action and the limitation of their natural liability by the same means. "The business of lending money is no part of the duty of any government, either state or federal. If a government has more funds than are required for public purposes, its duty is to remit part of the public taxes. Banking and brokerage are the proper pursuits of such private citizens as choose to engage in them, protected by the same laws that protect men engaged in other business." (Gouge's History of Paper Money and Bkg., p. 39., New York, 1835.) As it is not the business of a government to lend money, so it is not its business to "furnish" it in any other way; nor to give, nor to lend, nor "issue" any substitutes for money under any form whatever, because those who need them in their business can not get them otherwise. He who needs money and gets a substitute for it from the government is merely getting it from his neighbor at second-hand.

The business of banking is properly then, among other things, the loaning of his current credit to his customers, by the banker. To deprive him of this right, and place it in the hands of the government, is communism. This may be allowable if all agree to it and desire it, however unworkmanlike or unnatural. But when done against the will, and to the injury of the business, of any portion of the society, it is injustice. The whole society must show that it is essential to the common defense, or the general welfare—that of the bankers included—that this right to the use of their own credit shall be forbidden the owners of it and the credit of all shall be used communistically, by the whole people acting as a government. The claim that it is desired by the people for protection against the bills of credit of the bankers bears error on its face, for we have already seen that as depositors they trust a greater sum to the banks than all the bills of government credit amount to. Neither national nor state legislature ever met in this land without an attempt being made to get injustice done to some citizens. Yet there is probably not a man who ever thinks at all, who does not know that injustice is incompatible with permanent peace. The only way to permanent freedom from discord here or elsewhere, is to have each one free to labor and allow none to deprive him of its fruits. Credit is one of the fruits of labor. Every individual has by nature as good a right to the use of his own credit as he has to eat the bread he has raised out of the ground by his own labor.

There is no essential difference between the use of the public credit for currency by a direct issue by the government and an indirect issue through the national banks. The only difference made out by the advocates of the national bank system, is that their plan is more convenient. The first is undoubtedly communistic. It is impossible for the other to escape the same condemnation. That the two plans are one and the same, is acknowledged by Geo. Walker in his defense of the national bank system in the *International Review* for March, 1879. He says: "Both classes are strictly notes of the government, since it issues both, and is equally obliged to pay both in constitutional money. The obligation to pay the so-called bank notes is not quite so direct, but it is just as absolute." And he admits that there is no considerable advantage in "ear-marking" the notes, and that their local redemption is a sham. And the law of congress declaring that national bank

notes are government securities settles the matter. So the bondholding national bankers are caught in the act of communism, but their alleged communistic assailants are thus far only so in theory. And the remark of M. L. Scudder, Jr., in his "National Banking," that stockholders in state banks "like the communists * * * must be met and vanquished * * * at the polls," is grossly unjust, and intended for an insult; but a dispassionate train of reasoning proves him to be a defender and practitioner of communism. Hitchcock, in his "Socialism," says of French communism: "It denies and violates sacred natural rights of the individual." But neither he nor any other of our prominent writers on communism can see the same denial and the same violation in the prohibitory tariff laws, the prohibition of coinage, the prohibition of the proper use of private credit. For too many of them the starving bread-rioters, the underpaid railroad employees and the tariff-robbed grangers, are the only communists. They find the word "communist" a convenient bludgeon with which to strike down everyone who raises his voice against tariff-communism, and mint-communism and bank-communism. But the tariff-protected manufacturer and the national banker, who are communists, and who keep communism alive in our country and by their example teach it to all other classes, are entirely slighted by these venders of advice. Their sole remedy is more power. They forget that Napoleon, who had more power than their party can ever hope to have, said at last, "verily, there is no power without justice."

Not only is Walker right in calling the national notes "so-called bank notes," but the national banks are not really banks. One branch of the banker's business is loaning his own credit. This is now totally absorbed by the federal government. Banking is in a curious condition. The state and private banks are deprived of one of the functions of banking. The nationals the same. The government only issues circulation, receives deposits in certain ways, discounts only to national bankers, sells no exchange. So that there is no such thing as a bank proper in the United States.

The argument for securing the convenience and protection of the people by a federal banking system on the direct or the indirect plan, proves too much. It shows that left to themselves, the people can not successfully attend to their private business, but go

by ceaseless blundering on the way to inevitable bankruptcy at the end; that the only way to avoid this is by some system of machinery under federal officials. Aside from natural causes, all misfortunes in business may be traced to want of ability and honesty in individuals. The presence in society of many persons of imperfect mental and moral development, causes the difficulties that Knox, Walker, Buckner and others tell us can best be avoided by congressional management. But the mentally and morally incomplete, are still in the social body, and mingle with and are a part of, the government functionaries, and their influence or the force they exert, and the sum total of the ultimate result thereof, is substantially the same, when the cost is measured in dollars. Those who think the one weak point in our system is the circulation of bills of private credit; that the people are incompetent to protect themselves from spoliation by such means, and that only a paternal federal government can, may have overlooked the fact that since the immoral can no longer fleece the incapable by "wild cat" bank notes, they have caused greater loss by means of state, county and city bonds; by railroad, mining, insurance, oil and other companies. From the *Sedalia Democrat* the following is taken:

"Nine years ago there were six life insurance companies in St. Louis, with a capital of over \$10,000,000. They were swallowed up by two companies—the Life Association of America, and the Columbia Life. Then the latter was swallowed up by the former, and now the Life Association has swallowed up itself. And so the policy holders are swindled out of millions, and the widow and orphan are robbed of their last dependence. The biggest steal of the nineteenth century."

This is in one line only, and in one state, and does not give the amount of premiums paid, nor of policies of which widows and orphans have been robbed. A late newspaper account gives the losses in Wall street in one week, by shrinkage in stocks, as fifty millions of dollars. Yet it would not prevent these things to manage them all by federal laws only. Overbanking alone is not responsible for the losses in former years under state banks of issue. As Tilden says, if credit is a lunatic, there is no use in putting its little finger only in a straight jacket. No fact is better proved than this: when banks were chartered by the states to issues large amounts of notes on the specie basis, it was not to please and ben-

fit the small class of bankers only, but was in accordance with the demand of the people for more means of speculation and development of the country. If congress could have controlled the issues of paper, it would have made no difference, for the people control congress. We simply repeated the mistakes of England through many legislatures instead of one. Wells, opposing the second Bank of the United States in the senate, said: "The disease, it is said, under which the people labor, is the banking fever of the States; and this is to be cured by giving them the banking fever of the United States."

If the federal government substitute the public credit for all other credit money in time of peace for the convenience of trade, it will be so much less able to use its credit for the common defense in case of war. Any borrower whose paper is already out to a considerable extent, will find more difficulty in putting out more of it; and if when a good deal of it is out a desperate emergency arise in which more of it must be used, the lenders will demand higher rates. Aside from lack of mental power, or want of acquaintance with the subject, there is only one reason why anyone should want to delay the payment of the obligations of the government and getting it clear of all entangling alliances with traders and bankers, and ready to use its credit whenever the next emergency of war shall demand. That reason is: the intolerable selfishness of those national bankers who want to keep the present debt hanging over and crippling the government as long as possible, for their own private benefit.

Is it better for the banks to emit bills for the government to use than for the government to emit bills for the banks to use? The former is sometimes advantageous and even necessary: neither is ever true of the latter. The history of all the countries and of all the great banks of Europe, shows us a uniform set of causes inducing a uniform plan in cases similar to ours in and after our war between the states. On the decline of the government credit the government makes a bargain with bankers whereby it gets the use of their money and credit, and strains its sovereignty and power to help to sustain their credit by the grant of certain privileges. But in the national bank act this principle is exactly reversed; the government takes the whole field, farming out a part to the national bankers.

In debating on the bill, Sherman thus referred to the well-

known letter of Napoleon I. in which he said the Bank of France was "*coining false money*": "The idea expressed by Napoleon Bonaparte embodies the real objection to bank paper money issued in time of war when specie payments are suspended. It is a power that ought never to be exercised by any but the government. It is the power to coin money; because when a bank issues its bill without the restraint of specie payments, it substantially coins money, and false money. Sir, this is a privilege that no nation can safely surrender to individuals or banks. It is a privilege that ought only to be exercised by the highest power in the government. It ought only to be exercised by the state itself, and that only when the state is in danger." (*Understood*: and congress is the judge as to when the state is in danger.)

Imagine the framers of the constitution listening to a senator proposing to exercise under it the power of coining false money as its privilege, congress having declared the state in danger and the coining of false money the only thing that would, in the opinion of the senator, save it! Happy for us had Sherman read them more, and Bonaparte and the London *Times* less. Chase asked aid of the banks of the great cities of the north and they freely gave it. Without their aid he could not have accomplished his object. But whilst they were aiding him he crippled them so as to injure their credit. Then he appears with his national bank system, forbids them the use of their own credit and confines them to the use of the government credit. The country, instead of combining its private credit and its public credit, confined itself to the latter; which was no more sensible than for a wrestler to tie up one of his arms in the midst of a desperate struggle. Among the best financiers, who also sincerely desired the conquest of the Southern States, this was the opinion *a priori*, and long years of observation and contemplation of the facts seem only to have strengthened them in the belief.

"To manage its own fiscal concerns and manage them well is as much as is in the power of any government. The financial operations of the United States government should be limited to the collecting, safe-keeping, and disbursing of the public moneys, and the transferring of them from the places where they are collected, to the places where they are disbursed. Further than this, government should have no more concern with banking than it has with baking or tailoring." (Gouge's Hist. Pa. Money, p. 62.)

If when congress put the tax of ten per cent. per annum on the circulation of state banks it had excepted such as were secured by deposits of United States bonds, we would have had a circulation as good as the one the comptroller praises, and very much better in some respects. And it would have been only banking, and would have required no stretching of the constitution. State banks did not suit the ideas of the architects of the national system. Perhaps they believed with Chase, that the plan would produce "an increased security of the union, springing from the common interest in its preservation, created by the distribution of its stocks to associations throughout the country as the basis of their circulation." That involves the absurdity that the people should hire themselves to support the government of their own free choice. Otherwise it is an acknowledgment that it is not their own free choice. This is one of the oldest revolutionary survivors, and one may say to it, "Venerable *fallacy*, you have come down to us from a former generation." When the Continental Congress at its second session, 1775, referred to the colonies for advice the question of an issue of paper money, the Assembly of New York advised an issue by congress for all of the colonies, and declared it would be a "bond of union." Bollman found use for the same argument in 1810, in favoring the old bank of the United States. (Paragraphs on Banking, pp. 56, 68.)

Doubtless, like other fables, it comes to us from Asiatic ancestors. Mr. Alexander Hamilton, of New York, in proposing a national bank as the exclusive source of issues, gives the same argument in somewhat different language: "A further, and not an unimportant consideration, as a guarantee for the security of such a public bank, will be the general interest that must naturally exist in every well-regulated community to protect the solidity of an institution so absolutely essential to the prosperity and welfare of the whole." James Gallatin, in his pamphlet on the "National Debt," etc. (p. 49), in 1864, took the secretary to task for using this argument in favor of an issue of legal tender notes, thus: "To assert that the patriotism of the people required the excessive issues of legal tender notes, in order to give them this 'direct interest' in the country's welfare, betrays a distrust of that patriotism which the secretary, on mature deliberation, will, no doubt, readily disavow." The value of the entire property of the country rests on the existence of a government of the people's choice

properly administered. To suppose a man to change his real estate or coin for bonds, and thereby become a friend of the constitutional union, to change back and thereby lose his interest in it, is simply absurd, as applied to the many. Such men would be less dangerous as free enemies than as purchased friends. A few men are influenced by such considerations, but the experience and observation among speculators during our inter-state war, is that their sympathies directed their financial operations and were not controlled by them. Taking our present debt and our present population, this argument amounts to this: the price of the devotion of the Americans to their government is \$40 per head. The use of this argument, of a "firm anchorage for the union," is a gross insult to the people, and shows a want of acquaintance with them. In all of the pamphlets in favor of the national system that swarmed out in 1861-2-3-4, this ancient absurdity is pleaded with amusing gravity. Hamilton, in his first plan of a national bank (1790), makes no use of this argument, though if applicable in this case it was applicable in the case he was considering. As its first appearance was in his day and state, and he was collecting all the arguments he could get in favor of a national bank, he must have known this one and thought it worthless. *Ultima ratio regum* has been found so efficient in preserving the union, that the well-worn argument of the New York Colony may be henceforth dispensed with as superfluous.

The unmitigated misfortune of having the question of paper currency in politics, is apparent to every one acquainted with our history. How many unfaithful servants owe their place, to-day, to the shamelessness of their professions of a desire and intention to work for the "issue of more money," will never be known. Yet they had only the crudest and cloudiest ideas of the way in which it could be accomplished. How utterly absurd to think the paper currency can be issued or controlled exclusively by the federal government, directly or indirectly, and the currency question ever be anything but a source of perpetual discord. Dishonest office-seekers and demagogues, could ask nothing better; the honest and industrious get nothing worse, than to have that question kept in national politics. Nothing is so favorable to a corruption of the government as to put the paper currency question in its hands, for in a few years it can be so confused by legislation, that the average voter will find it so difficult to understand

that he will look on it as purely a question for experts, and refuse to try to understand it.

Thus common sense and utility show no more reason for controlling banking through the federal government, merely because bank credits are sometimes used in lieu of money, or for any other reasons, than they do for managing all other business through that means. It is neither useful to trade in time of peace, nor to government in time of war, but is injurious in both cases.

To sum up: the demand that banking be separated from the other vocations and controlled only by federal authority, ignores the nature of currency; it assumes an identity in money and currency that does not exist; reasoning from that assumption it does not even reach a logical conclusion; it rests on a false assumption as to the confidence of men in each other and their ability to attend to their own business, and on a failure to understand the true functions of governments. And the proposition that the federal government control and manage banking, results in it doing the banking itself; this makes its credit least available when most urgently needed by itself, and is undisguised communism.

III.

IS NATIONAL BANKING CONSTITUTIONAL?

"Public credit for public purposes solely."—*Democratic Platform, Cincinnati, 1880.*

In examining the act to provide a national currency, to see whether it is a law made in pursuance of the constitution or not, it is more convenient to divide the question in two parts. At the time it was passed there was an endeavor to put it on the ground of a war measure, an exercise of the power to borrow money on the credit of the United States for the constitutional needs of the government. In the case of *Veazie Bank vs. Fenno* (8 Wallace), the court distinctly claimed the necessity of raising funds to carry on the war as the ground of constitutionality of the act. In advocating it in congress, Sherman and others called attention to the low credit of the government, and said that if it continued to issue United States notes, and did not charter banks to issue a uniform currency, the result would be a continued decline in the government credit. Sherman's remarks on Feb. 10, 1863, show him to have been looking to the banking scheme to save the country from the legal tender monster brought into being by congress. But there is no evidence that it helped matters any to start national banks. The Missouri Senator, John B. Henderson, made a long speech attacking the bill. He said the local banks could loan the secretary money if he could satisfy them of the security, and asked if they would demand less security if they were changed into nationals. "Does the mere organization of capital *

* * enable the secretary to lay his hand on the surplus capital of the country?" "Falsehood and blunders will follow it all the days of its life. Its history will be one of corruption." Geo. S. Coe, of the American Exchange Bank, approved "the

able remarks of Senator Henderson." The amount of the country's credit was a given sum. When bills were kept within that sum it would have a high market value, but issued over that its market value would decline. Manipulating it could not affect this fact nor conceal it. To expect the national notes to sustain the credit of the government, was expecting water to leave its level and run up hill. After state banks, private bankers and investors had done all they could in the way of buying bonds, it was no additional aid to the government to induce bondholders to form new national banks and lend their new circulation to the government. In the letter of H. H. Van Dyck, supt. of banking department of New York, to the *Evening Post*, April 19, 1864, he says, "Nearly all the currency that can be furnished by the 'national banks' is borrowed by the treasury." To borrow back these bank notes it must issue bonds for them and pay interest on them. Why not issue its own directly? The same inflation occurred by this operation as if it had issued its own notes, and the debt was contracted in interest-bearing bonds instead of non-interest-bearing notes. If the money was not in existence, or not to be had to buy bonds with, and it was necessary to create it through means of the national banks, it was as well for the government to create it itself. Has congress entire discretion in the matter, so that it may borrow the worst way or the best way? Suppose ourselves back in, 1863 or 1864. The government wants a hundred millions in current paper money. Shall it print it in legal tenders and pay them out, or shall it issue bonds and sell them for the legal tenders already in the hands of the public? It is objected that there are too many legal tenders out already, and a further issue will greatly reduce the purchasing power of the proposed issue itself. It is decided that it is better to sell bonds on the market for the legal tenders already in the hands of the public. As an additional inducement to purchase the bonds, bankers are allowed to issue circulation on them to the extent of ninety per cent. The transaction is made, and what is the result? The currency is inflated about as much as the issue of legal tenders would have inflated it, and the purchasing power of the paper received for the bonds is thereby reduced. The government is simply out the interest on the bonds by the transaction. The new issue of bonds also has a similar effect on the purchasing power of the paper money received, for it makes it seem less likely that so immense a debt as ours will ever be paid.

So that the operation of selling a given quantity of bonds, and allowing the purchasers to issue currency on them, is not far from depressing the government credit as much as the issue of double as many treasury notes would have done. In the debate Reverdy Johnson showed that the evil complained of—embarrassment of the money market by inflation—would not be remedied by withdrawing the treasury notes and substituting bank notes guaranteed by the government. Suppose the government takes the other alternative, issues new treasury notes, and instead of paying three millions interest in gold at the end of six months, uses the gold to buy up its own notes. It gets from six to seven and a half millions or takes up twelve or fifteen millions of the notes the first year. This would strengthen the credit of the government and raise the value of its subsequent issues of treasury notes, i. e., would aid it in carrying out the constitutional power to borrow money on the credit of the United States (for the issue of notes is now considered borrowing money). The other plan is not an appropriate method of exercising that power, but is plainly an impediment to it. The morality of buying up its own notes whilst fundable into interest-bearing bonds, has at least the sanction of Hamilton. (Report on Public Credit, p. 20, Child & Swaine's Folio Edition, 1790.) Or suppose the circulation of state banks had been taxed ten per cent., but all such notes as were secured by deposits of the bonds of the United States had been excepted: the same inducement to buy the bonds would thereby have been offered to bankers. The ease with which this could have been done made it the most proper and made the other unnecessary in any degree. The following circular came into the house, and was read by Griswold, April 28, 1864:

“NEW YORK, April 22, 1864.

The excessive issue of paper money in various forms is now rightly the subject of special alarm throughout the country. Any further issues should be promptly arrested, and the amount existing be gradually, but not too hastily, contracted.

* * * * * * * *

First, by the withdrawal of all bank-note circulation, as well national as state, relying entirely upon legal tender notes of government now in circulation, which are quite sufficient.

Or, secondly,

1. By prohibiting the issue of any bank notes after this date, unless they are secured by government bonds, say at ninety per

cent. (This may be effected by a government tax on all notes not thus secured.)

2. By requiring all banks having outstanding circulating notes to withdraw them and secure those issued as above.

3. By limiting all circulating notes to amount outstanding.

4. By repealing the national bank act, making provision for the national banks now existing. * * * * *

This plan, it is believed, will secure all that is really beneficial in the national bank system. * * * * *

MANY BANK OFFICERS."

Senator Henderson, in April, 1864, worked vigorously against the national bank act, and openly charged that it would inflate the currency already complained of by everybody as redundant. No one, not even Sherman, the champion of the bill, denied this. Henderson said: "When they put the notes of their banks in circulation, do they not clog the very operations of the treasury? Do they not produce the difficulty of which the Senator (Sherman) now complains, and that is that the currency is redundant; that it is in his way; that he has too much of it? And further: "The plan now proposed will, unless strangled by the future legislation of congress, postpone for twenty years at least all hopes of a convertible currency." (He came within four years of it.)

The debate in the senate over the first bill, shows Sherman and others contending for the system, chiefly because the amounts of currency would be arbitrarily limited by law of congress. But when one understands what currency is, he at once see the absurdity of attempting so to limit it. But what does a congressional limitation amount to? A limitation from one session to another only, for the next congress may alter or remove it entirely. So that to have a real limitation would require a fixedness in the composition and disposition of congress that no sane man expects; and if it could be made, it would be absurd and incongruous with the nature and uses of currency. Yet this was Sherman's chief argument: On one hand a system of state banks that had issued \$167,000,000, and with no limit to the amount they might issue; on the other, the new national system limiting the total issue to \$300,000,000. So far as he gained any advantage from the argument it was an advantage gained under false pretenses.

If there was any expectation of making a market for the bonds by creating this system of banks, it was not realized. Less than

one-fifth of the bonds have been continually held by the national banks. If we take out the state banks converted into nationals, we will find that the new nationals made a market for less than ten per cent. of the bonds; and if we take out of these the amount that would have been held by those who became stockholders in the national banks, but who, even if they had not been able to start national banks with them would have held them as investments, the amount marketed by the creation of the system dwindles into insignificance. But on this point a most emphatic and reliable declaration was made by Col. Joseph L. Stephens, President of the Central National Bank of Boonville, Mo., President of the Missouri Bankers' Association, and late Vice-President of the American Bankers' Association, who has won for himself a prominent place among American financialists. In his address to the Missouri Bankers' Convention at Sweet Springs, Mo., July 9th, 1879, on "Popular Delusions in Regard to Finance and Banking," he said: "The incorporation of the banks simply made them the purchasers of a small portion (less than a fourth) of the bonds that had been antecedently issued and *sold to others.*"

Sherman stated (Apl. 26, 1864) in the senate that the Bank of Commerce of New York already had \$16,000,000 in bonds of the government, and Henderson of Missouri showed that there could be no advantage to the government by inducing it to come into the national system as it had bought all the bonds it wanted. May 6th, 1864, Henderson said: "It can not and will not be argued now that it will enable the secretary of the treasury to sell bonds, as an inducement to commence banking, * * * because the banks of the country already hold bonds enough to procure all the circulation authorized by the bill." "How does it enable him to borrow money that he could not otherwise borrow." On the passage of the second bill, Ganson of New York, said that the banks of his state had purchased over three to one over what the national banks had purchased, of national bonds. Van Dyck, superintendent of the banking department showed that they had purchased more than the amount of their capital in United States bonds. The plan of securing circulating notes by deposits of bonds was already in successful operation under the laws of New York, and of other states. United States bonds were already used for this purpose among other bonds. The system would have grown from one state to another, and these bonds would have be-

come the favorite security, and the notes been always as good as greenbacks, and some of them better. (Thus in passing the charge is again disposed of, that state bank notes would have been so much below par that they would not have been capable of use as the currency of the country, during and since the war.) The state banks would have gone naturally and willingly into this arrangement; and that we would, long before this time, have had a complete system of state banks issuing notes all secured by deposits of United States bonds, is almost certain. But coercion was necessary to drive capital into the national system and it has never completely succeeded. On the payment of the debt, such state banks would substitute other good bonds as security and continue without interruption; but by that event the nationals will be dissolved, hence they try to postpone it.

Chase distinctly acknowledged that the system could not be expected to give the government any aid of importance, at the time it was most imperatively necessary to sell bonds. The language of his report in December, 1862, as quoted in Spaulding's Financial History of the War, is as follows: "Little direct aid is, however, to be expected from this plan during the present, nor very much during the next year." (p. 167.) That substantially put off any hope of aid from it until 1865, in Chase's opinion. Twenty banks took out charters in June, 1863, forty-three in December, 1863, forty-three in January, 1864, and sixty-seven in February, 1864. A meeting of state bank officers at the New York clearing house, in Dec. 1863, reported, among other things, as follows: "It must have been observed by all, that the applications for banks under this law, though numerous, are for small amounts, many of them of only \$50,000, or \$60,000, capital. Your committee know of very few which are designed to do a legitimate banking business. There may be others, but from the small amount of capital of more than a hundred of them, and the localities of several, your committee strongly suspect them of being intended for banks of *circulation* only, not regular business banks for deposits and discounts, but what are known in our western states by the expressive term "Wild Cat Banks." One of the subscribing committeemen was John E. Williams, of the Metropolitan (now National) Bank. Thomas W. Olcott, President, Mechanics and Farmers Bank, H. H. Martin, Cashier, Albany City Bank, Rufus H. King, President New York State Bank, E.

Wicks, Cashier Commercial Bank, all of Albany, addressed to Lucius Robinson, comptroller, a communication, April 8th, 1864, in which they pointed out that the national banks were only leeches on the government. They said: "These national banks live and move and have their being on treasury pap. Their plates and paper and printing are given to them. Money which the government is borrowing at high rates of interest is deposited with these banks without interest. They are also exempt from taxation, which is equal to $2\frac{1}{2}$ or 3% more. But all these advantages and largesses heaped upon them by the secretary, are scarcely one-third in comparison with the field of circulation which the government has surrendered to them. They can circulate three hundred millions upon government 6 per cent. stock, payable in gold, which is more than 10 per cent., or thirty millions a year clear profit, and for which the people are to be yearly taxed. This vast amount could be saved by the issue of government legal tender—a better currency—and the people relieved from a tax of thirty millions a year, given to foster and build up the most stupendous, ill-devised and alarming system of banking which the world has ever known. Already the condition of the currency and of our national treasury admonish us of appalling dangers—dangers in view of which it were wise to pause, and prudent to reflect." Somewhat less than one-twentieth of the total federal indebtedness was represented by the national bank capital during the war. Even Spaulding saw that it could be of no assistance at that time. He said: "It is anticipated that in the course of a few years, and certainly as soon as the system goes into operation, United States bonds will be deposited to this amount (\$250,000,000). * * * Will this materially aid the government in the present exigency? I think it will not, and the secretary frankly admits that 'little direct aid,' etc. (Fin. His't War, p. 171.) The "degree of necessity"—one-twentieth of the debt—was, like the degree of necessity for establishing a branch of the Bank of the United States at Albany to furnish a place to deposit the \$2.50 of government money there, a very small one. Why did these men who knew the bank act would not be of sufficient benefit in the exigency to compensate for the "largesses" bestowed on the banks in order to induce them to organize, thus waste precious time over an act which was not of present importance, and raise up questions that provoked the ill-will of the bankers who were doing all in their

power to take the government bonds? There can be but one answer to this. They knew that unless they got the work done by this fractional congress, wrought up to a pitch of frenzy in which it was capable of doing literally anything alleged to be necessary by anybody in accord with it, that the time would come when reason would resume its sway, and respect for the known condemnation of federal banking by the public opinion, would make the passage of the act impossible. They were rogues at a fire. And it turned out worse than Chase said. The act to provide a national currency was insufficient to give the system a hold on the country. That by which a tax of ten per cent. was put upon state bank notes, and which by its terms took effect July, 1866, did the work, as the comptroller and McCulloch both state. The war was over and the army paid before the national system had got to work. Wherein, then, was it an aid to the government?

Notoriously, congress did not think it necessary to establish the new system of banks proposed by Chase, but did so out of deference to his judgment. The law passed the senate by a vote of 23 to 21, but if those who did not believe it either appropriate or necessary had voted as they thought, instead of voting as Chase thought, the bill could not have passed. So we have taken another long step in addition to the one taken in McCulloch vs. Maryland: to-wit, congress need not decide the degree of necessity in order to incorporate a federal bank or banks; the secretary of the treasury may decide it and congress put it in force against their own better judgment, and it will be declared constitutional. Chandler said: "This is not a question of banks or no banks. This is a question of government or no government. It is very well known to every senator on this floor, that we must have money to carry on this great government or it will go down. * * * The secretary of the treasury comes before us and tells us this bill is necessary to carry on the financial operations of the government." "In this great emergency shall we hesitate to take what is necessary to save the government?" * * "We are to-day in the very crisis of our fate. If we fail at all, we fail financially." Henderson voted for the bill in 1863, understanding that the secretary of the treasury thought it "a measure absolutely essential to enable him to get along with the finances of the country." Sumner said it was to "enable the Republic to go triumphant through all its perils." Sherman said: "We think these banking associations essential to maintain

the national credit. They are agents of the national government. They are only justified as agents of the national government to protect the national credit." Sumner said: "At this moment the national banks are not less important to our defense than our navy yards." Against, Sumner, Sherman, and others, who tried to keep the power of taxing national banks out of the hands of the states, Lane, of Kansas, said: "The time may come, as it once was, when the people of this country will not want a United States Bank; and I desire to give to every city, county and state, the power to destroy it if that time shall come. * * I opposed it when it was in existence; I spat upon its grave after it was buried; and I am now induced to support it because my country demands it."

The convenient plea has been put in that the negotiation of foreign loans was impossible on account of the sympathy of foreigners with the Confederate States. Doubtless there was much more in the assumption of power to make legal tender at will and the general blundering of congress that prevented it, than in this supposed sympathy. It is impossible thus to hide the follies that produced the result. Instead of looking at the situation coolly and reasonably, congress acted like run mad revolutionists, made the most foolish utterances possible and those calculated to injure public credit most severely. Nothing in folly and demagogism uttered since the war, but may be duplicated by extracts from the congressional records of the war period. What good could result from proclaiming to the world that if the southern states were not forced back into the union there would be no government nor constitution? Why not say, like men, that the remaining states were amply able to pay the debt, and would pay it to the utmost farthing, with or without the south? How could it help damaging the credit to inform the whole world that a mistake had been made hitherto in supposing nothing but gold and silver could be money under the supreme law of the land, and that such a daft set as congress appeared to be, could make one thing or another money for past, present, or future contracts.

There is strong evidence to show that a set of cold-blooded conspirators intended all the time to fasten the debt on us forever, for the purpose of having the privileges of these banks perpetuated. In a pamphlet issued from the government printing office, in 1861, in which only fictitious names are signed, one writer signing

"Patriotism," says: "Thus it may be that the people of this country will *demand* of the government that the whole of this amount of bonds shall remain as a base for currency, and thus relieve you from the unpleasant necessity of laying a tax to pay them off. Let us all, with *one accord*, unite in building up for ourselves and posterity the most substantial and beneficial system that has ever been adopted, and which is built *entirely* upon public credit, public intelligence, and a united self reliance and independence. *Esto perpetua*." The pamphlet was called "Notes explanatory of Mr. Chase's Plan." Numerous other propositions suggesting the perpetuation of the debt were made at the time. But after the country regained its balance by the return of all the states, the restoration of free speech and the decline of military rule, these were silenced. The proposition has lately been revived in the most respectable journals of both parties. There is one of the old parties that such journals do not represent. What must have been the effect of such doctrines, when the government may be said to have had hundreds of thousands, even millions, of men stealing from it? Evidently this doctrine, which impregnated the very atmosphere at the time, not only quieted the conscience of every rogue, great or small, eminent or obscure, military or civil, but made him regard himself, in increasing the debt, as starting a mint and furnishing the bullion for general use. He was no rogue at all, but a generous and philanthropic benefactor of the public, furnishing the means of perpetuating money for everybody.

But what except the most reckless disregard of truth could induce men to urge the adoption of the national system on the ground of the supercession of a "wild-cat" system. The ignorance of the London *Times*, from which Sherman quoted, could be expected and over-looked as a part of the general European ignorance of American affairs; but the moral, or immoral, aspect of its use as an argument in the senate, is quite different. Fessenden showed that the stock-holders of New York state banks were individually liable on the notes of their banks. Cowan showed that it was not a legislative provision, but was in the constitution of that state of 1846. Sherman said it was "engrafted on the constitutions of many of the leading states of the Union, * * * New York and most of the western states." Wilson, of Massachusetts, stated that stock-holders were personally individually liable on the circulation in his state. (April 26, 1864.) The framing

of the bill so as to except the Bank of Commerce of New York from the double liability to which the other banks were subjected, was very objectionable to the senate, and Sherman said that the only reason he favored it was that they were "compelled to do it or forego the advantage to be derived from this very large bank leading off from the state to the national banking system." Fessenden made the pertinent inquiry, why the Bank of Commerce declined to issue notes under the laws of New York, but wanted to get into the national system for the purpose. It would not be likely to increase its accountabilities to law, or to leave a liberal for a stricter system. Its action indicated that the national system did not as strictly hold the stock-holders as the new system. As he then spoke the constitution of Michigan had for thirteen years contained a clause forbidding the legislature to pass any act permitting the banks to suspend specie payments. In parts of the country the state bank notes were worth more than the treasury notes. In Kentucky they were three per cent. higher when the national bank act was under debate than treasury notes. Henderson dared Sherman to allow a proviso in the bill, that national banks be required to keep on hand one-tenth as much coin as the Missouri state banks then had in their vaults. (May 9, 1864.) Henderson continued, "The very state bonds that were filed with the register in Wisconsin and Illinois and other states in the west, to furnish a basis of circulation in those states in 1857 and 1858, never sunk so low below gold as United States sixes to-day, although the people suffered so much by the depreciation of those bonds." It was said that the notes of the Minnesota banks were ruined by the secession of the states on whose bonds they were issued. The state banks then were not to blame; and it was the less likely that they had means to start the new system on a sound basis. Here was a condemnation of a system of banking, because it had been unable to protect itself against the effect of the secession of the southern states! But the new system felt the effect of the same cause at its birth—its notes first went into circulation at a discount of about 50 per cent. Grimes, of Iowa, said the state system of Iowa was "entirely satisfactory to the people" of his state. (May 5, 1863.) Doolittle said: "I understand there is not a better managed institution in the country than the State Bank of Indiana or the State Bank of Iowa." Farnsworth, of Illinois, distinctly plead the "baby act" for his state. He wanted congress

to manage banking for his people, because they were unable to grapple with the question themselves, according to him. Replying to Farnsworth, who represented his state as having a "general smash of all the bank circulation, once every two or five years," Kernan said, "If it be true that in certain states the people wish to suppress the state banks, should they come here and suppress also the banks in other states, where the people are better satisfied with their state banks than with the proposed so-called national banks." Henderson said (May 6, 1864), "I have heard it given as one reason why this bill should be passed, that the state banks have suspended specie payment. * * * If the state banks had suspended specie payments, without any action on our part making it necessary for them to do so, would that be any reason why we should pass here a system of banking which is already suspended in its inception. If bank suspension is a bad thing, it is bad only because notes of the banks are not convertible into coin. * *

* They (state banks) have enough coin in their banks to buy greenbacks in sufficient quantity to redeem every dollar of it, to-day, and have all their loans, exchange, and other assets, on hand besides." On the same day, Reverdy Johnson called attention to the fact that the failure of a state bank to redeem its issues in coin was an act of bankruptcy, and congress could reach the case by passing a bankrupt law. Garret Davis, of Kentucky, said: "If the government had not interfered with the banks, it is a problem whether they would have been driven to the suspension of specie payments at all; certainly not in the condition in which the country and business then were." Henderson showed that in 1860 the state banks had in circulation \$207,102,477, and coin on hand \$83,564,528, or over 40 per cent. The nationals had out on Oct. 2, 1879, circulation, \$313,786,362; specie, \$42,173,731; legal tenders, \$69,196,696, or nearly 36 per cent. counting legal tenders and specie; or thirteen per cent. of specie alone. The coin value of the legal tenders is par, as long as the people do not want to pay express charges on them to New York and charges on the coin back. If the arrangements were such that they were redeemable without this discount of an average of at least five per cent., their coin value would not be par, because there is not coin enough to redeem them. When, in Jan. 1, 1866, the national circulation was first greater in volume than the state bank circulation, the nationals had on hand less than twenty millions of specie. H. H.

Van Dyck, supt. of the New York banking department said, in his letter to the *Evening Post*, April 19, 1864, in defense of the New York banks: "The aggregate circulation issued and outstanding at this time, is more than a million dollars less than it was in 1854; although the banking capital has increased more than twenty-six million of dollars within that period. The secretary of the treasury stands confessedly at the fountain-head of irredeemable paper.

* * * Standing far above all state banks on the stream of irredeemable paper issues, he complains that these institutions befoul the currency so that he cannot abide it, and redress can only be had by forcing them into liquidation through onerous taxation." Henderson said, "If you, to-day, repeal your legal tender law, there will stand the state laws, compelling the banks to redeem in coin, and they have got the coin to do it." And, "The secretary of the treasury says he is injured in all his financial operations, because he cannot stop the banks from inflating the currency, when the fact is that the banks are contracting their currency every day, and we know it; and yet gold goes up as the state banks contract their currency. Then somebody else is expanding the currency, and not the state banks." Sumner said: "Gold will assume its normal place; business will be sure; values will be fixed, fluctuations will cease; inflated prices will pass away." This was not the first time Missouri had to teach Massachusetts true finance, and it recalled the day of Benton and Webster. It was clear that the senate knew that it was not substituting a sound for an unsound currency. The contrary was near the truth. It could not rest the plea of "necessary and proper" here.

The banking system could not be of any aid to the government in paying the debt after the war was over. There was nothing to do then but to collect taxes and apply them honestly. The tendency has always been to keep government money lying idle on deposit in these banks while the government is paying them interest on the bonds. It is said they were necessary for depositories of government funds, taxes raised in the interior, etc. But such depositories already existed; state banks would have given ample security and been glad to get the deposits. The national system only put a uniform on them. Does any one pretend that the Bank of Commerce is a safer depository for having put on the national uniform? The degree of necessity is, according to McCulloch vs. Maryland, a matter for congress to decide. But where

a system already exists under the state laws and congress can utilize that, there is no degree of necessity for it to start a new one. A method "appropriate and plainly adapted to the end" would have been for the government to select a bank already established and make it a depository, requiring it to give security for the government funds deposited. Where the natural demands of business had not already justified the presence of a bank the hope of being a depository for the purposes of the government would scarcely be sufficient to cause a national bank to be founded. We have only to look over the country and see that the failure of the system to become generally adopted proves conclusively that it is not adapted to the purpose of providing safe depositories for funds raised by internal taxation. In a large part of the country where the law of congress has failed to bring into existence such depositories, better ones already existed and still exist under state laws. In fact the system flourishes most in the part of the country that pays the least tax in proportion to its wealth, showing that like all other cases of federal banking, this is in the interest of capitalists more than in the interest of the government. Perhaps some one may answer with the venerable error of the great dead, who said in *McCulloch vs. Maryland*, that for the execution of the powers assigned to it, the federal government is not dependent on the state governments. It depends upon the state governments for the very organ by which it uses its powers—congress itself—and for the executive no less. The originator of that must have meant, "for the exercise of its implied, inferred and doubtful powers," it is not dependent. Similar grounds were advanced for chartering the former Banks of the United States, but by long practice we demonstrated that they were unnecessary as aids to the government in transacting its business. In the financial debate in congress in 1857, the Democrats charged the Republicans with being secret friends of the idea of a government bank, and they reiterated Webster's plea of oblivion for it as "obsolete." If a law is unnecessary and improper and tends to defeat the exercise of one of the constitutional powers urgently necessary to be exercised, is it the less unconstitutional because its fatal defect is not seen at the time of its passage; or because it is passed in good faith? Does it make any difference in its constitutionality whether it is begotten of the shrewdness of money lenders desirous of fattening on the extremity of the government, or the dullness and ignorance

of finance and law on the part of congress and the secretary of the treasury?

The evidence, then, is that the founder of the system gave notice that no aid of importance could be expected from the system during the war; the most important service, an indispensable one to the success of the war, was rendered by the state banks; the notes were not worth as much in estimation or in respect to the ability of banks, as those they superseded; no new market for the bonds was created; no service was rendered by the banks that those already existing would not have rendered; the currency was inflated by the system; the price of bonds was depressed by it; the prices of what the government needed were made higher; it was believed unnecessary by those without whose votes it could not have passed but was passed, because the secretary of the treasury thought it necessary; its effect showed it to be improper: hence it was at the time it was passed as unconstitutional as if specifically forbidden. Has it become constitutional since?

In his report for 1879 the comptroller says: "It is certain that if the national banking system had not existed, and United States notes had alone been issued, the refunding operations here described and the consequent large reduction of interest upon the public debt would not have been possible." This claim is that these holders of the bonds became disinterestedly anxious that the government cease paying them six per cent. and only pay four. The industry and economy of the people and their prompt and cheerful contributions of taxes so improved the credit of the government that the loan could be refunded at a lower rate and these banks reluctantly exchanged their bonds, which constituted a small portion of the debt. This is the fact. The kind of money circulating played no part. In this connection it would be interesting to the taxpayers to know whether the sale of four per cent. thirty-year bonds, resisted by the secretary of war on the ground that the rate was too low, bonds which have gone to about ten per cent. premium in the hands of the purchasers, is to be considered *solely* a lack of judgment on the part of our officials. For if the interests of the national bankers (which the present secretary could not more carefully guard if he owned *all* of them) affected it in even a very slight degree, it touches the question of constitutionality; still more if they effected it entirely. The demand has been made during the progress of the debate on refunding in the first

part of 1880, that the debt be perpetuated for the benefit of these banks; that a three per cent. interminable stock like the English be saddled on us. The attempts to spin the debt out as long as possible, and the ill-concealed determination of congressmen, senators and treasury officials to have the new bonds bear a higher rate of interest than is necessary, is unquestionably due to the national bank influence. In refunding, or borrowing at a lower rate to pay existing debts, this system has been a hindrance, again proving its unconstitutionality.

If this system tended directly to cement the Union, it would have a better argument for its constitutionality than it has ever been able to show in any other way. This point was fully treated in the last chapter, and it was seen there that there is nothing in the claim. Mr. Watmough, a Pennsylvania dwarf, who, representing the bank district, attempted to oppose the Missouri giant who was battering down the United States Bank, said the stability of the Union itself depended on the bank. Subsequent events made this speech the prize jest of our financial history up to 1861. And what is Chase's statement, persistently kept before the people at their own expense in the comptroller's reports—that the national system would furnish "firm anchorage to the union of the states"—but a rehash of Watmough's ancient gravely uttered jest? The national system was most favorably received in the north and east, the sections where the most devotion to the objects of the war was felt; but in the south where other considerations outweighed the geographical integrity of the Union, in California and Oregon, that did not raise a regiment for the war, the system has never taken any considerable hold. So that the *a priori* absurdity of this argument is made palpable by the facts.

Is the act to provide a national currency constitutional, regarding it simply as what its title indicates it to be? Can the national system permanently exist in time of peace as the monopolist of the right to issue currency? The doctrine of the present day is that the act is simply what its title states: "An act to provide a national currency;" that it has no special reference to a state of war or the exigencies thereof, but is justified on the ground of the impossibility of having a sound and homogeneous currency by any other means. The demand is that it be made the sole and permanent currency of the country. Its constitutional warrant is somewhat obscure, even in the minds of its advocates, and is variously

inferred; from the power to coin money by some, from the power to regulate commerce among the states by others, and from both these powers by others. April 26, 1864, Sherman said: "We think these banking associations essential to maintain the national credit. They are agents of the national government. They are only justified as agents of the national government to protect the national credit." (Cong'l Globe, pt. I., 1st sess. 38th Cong.) To take him at his word, these banks are not now justified at all, for the national credit does not depend on them. The industry and frugality of farmers, miners and others, has thoroughly established it.

The friends of this scheme knew that to charter banks to issue their own bills would be so plainly a resurrection of the old condemned Banks of the United States, that they had to get up a plan by which the bills of credit of the government could be issued through banks. In trying to prove the constitutionality of making the notes of the first federal bank receivable for taxes, Hamilton said: "The appointment of the money or thing in which the taxes are to be paid, is an incident of the power of collection. And among the expedients that may be adopted, is that of bills issued under authority of the United States." But was it ever "necessary" to invent a new medium for paying taxes? Was it "necessary" to set up the huge machinery of the bank for the purpose? Every body knows that the bank was wanted for other reasons. Besides, the various parts of the constitution consist with each other. The power to coin money has a direct bearing on the question of what the taxes shall be paid in, and makes the inference of a power to appoint some other thing unnecessary. Among Chase's reasons for asking the passage of the bill, in the fall of 1863, were: "its utility at all times in protecting labor, cheapening exchanges, facilitating travel and increasing the safety of all business transactions;" none of which are true of it, as we saw in the first chapter.

Sumner and Chandler went over the weary road of proofs that the states cannot delegate to banks the power to issue notes, because they do not possess it themselves, all unconscious that their proofs had been many times exploded; especially by Davis, of Mississippi, in the senate in 1857. Much mental confusion occurs from men supposing that the state can confer upon individuals in certain bodies, or corporations, the new power of issuing circulating notes; or as some choose to state it, the sovereign power of issuing money. Sherman said (Feb. 9, 1863), "there is not a

single act done by any banker that cannot be done by any individual, except the issuing of circulating notes." And a few moments later, "I would ask my friend to tell me a single advantage the banks of the state of New York have, a single charter privilege which they have, except the power to issue circulation." And in the same speech, "the only power they (banks) derive from incorporation not granted to all citizens, is the power to issue notes as money." As we saw in the last chapter, it is the natural right of every man to use his credit in the form of circulating notes, and none of the states has destroyed it. They provide the manner in which it shall be exercised, through corporate organizations. The old decisions in the cases of the former banks of the United States were to the effect that congress could also provide the manner of exercising this right, whenever it is necessary for it to do so, in order to exercise one or more of its powers; and that the states could not hinder it in so doing. But, as we have seen, the present national banks are not using any private credit in the issue of their notes, but are using the public credit. Their notes are the public credit disguised as bank notes. Where in the constitution can we find the power to so use the public credit for the convenience of trade? Nowhere, for it does not exist.

No doubt one of the original intentions in passing the act, was the paternal and centralizing one of providing a national currency for the safety and convenience of trade and of the people generally. Lincoln's message of December, 1862, and Secretary Chase's of almost a year previous, as quoted from by the comptroller, on pages 26 and 27 of his report for Dec., 1878, establish this fact beyond any doubt. When the bill was in congress Fessenden probed the ignorance of some and the duplicity of other senators thus: "Gentlemen argue as if this was a mere matter to last during the war, for a year or two more or less. Is it so? Does not the secretary of the treasury dream and does he not believe that it is to extend through all time; * * * it is to be a matter for peace, for a long series of years." Knox, Walker, McCulloch, and all of the other defenders of the system, keep strictly in line with this original design of the act, in that they endeavor to prove it safer and more convenient than state banking, and more convenient and but little more expensive than a direct issue of currency by the government for the uses of trade. In every case of federal banking, from Washington's day to ours, there

has been a feint and a real movement. The feint has always been the needs of the government. The real movement it has always covered, has been the convenience of trade. A former writer on the United States bank said: "It is difficult to believe that such a measure would have been even so much as *thought of*, if it had not in itself been calculated to promote certain *private interests*." (Gouge. Principles of the American Banking System, p. 55, N. Y. 1835.) The old laws and decisions construing the constitution to permit the chartering of corporations, that were wiped out, and whose authors were rebuked by the people at Jackson's reelection; that all parties acknowledged were obsolete; that are not applicable to the present case, are still invoked by the defenders of these "so-called banks." If it were constitutional to use the credit of the United States alone in the bills issued through the present national banks, it might be claimed that to issue bills, as in the two former Banks of the United States, would be constitutional; because the whole includes a part. But the claim that because the credit of the United States was a part of the credit represented by the bills of the former banks, therefore, the United States in issuing its credit as the sole credit money now allowed, is justified by the decision in the cases of *McCulloch vs. Maryland* and *Osborn vs. the United States*, does not follow. The old cases on which it tries to rest do not support it, for the reason that a part does not include the whole. The decision would certainly have been the same in those cases if the government had only chartered those banks and owned none of the stock. But for it to have owned the whole bank, i. e. for the government to have been the bank, was never thought of and would not have been tolerated. A decision that the government may be the bank, so far as the circulation is concerned, cannot be made to rest on a decision that it may charter a bank to act as its fiscal agent. Deprived of its foundation upon the needs of the government and defended on the ground of the needs of trade, the present system has all the odious features of the old Banks of the United States, with the additional feature of an unconstitutional manner of using the credit of the United States.

The decision in the case of *McCulloch vs. Maryland* was not a judicial but a political and expediency decision, like that in the legal tender cases of *Knox vs. Lee, &c.* It received in its day as little respect as the latter in our day, and was riddled again by Benton

in his war against the bank. He showed that the branch in Maryland over which the suit arose, could only exist "after two contingencies have happened in the state; neither of them having the necessities, or even the convenience of the federal government" in view. He showed that congress had decided that a necessity existed for a branch at Albany, according to the court, though the government deposit was only \$2.50. "The degree of necessity" was a very small degree in that case, but, according to the court, congress was the judge of that and its judgment could not be questioned. For a man to have demanded the re-establishment of federal banking ten years before the passage of this law, giving the *McCulloch vs. Maryland* decision in support of its constitutionality, would have been to make himself an object of ridicule. Yet in order to make out the constitutionality of the present system it is absolutely necessary to bring up that decision long since repealed by the highest power in the land—the people. The subject never came up in congress, or elsewhere, on any important occasion, that the one side did not claim and the other acknowledge that the people finally and effectually reversed the decision in favor of federal banking and that it was an obsolete idea, until the day of the fraction of a fractional congress that passed the present law. Suppose the proposition to found this system of banking had been made as a plank for the Chicago platform in 1860. Its mover would have been thought crazy. Suppose the month of December 1859 had seen a proposition in congress to start a third system of federal banks, reviving the "obsolete idea." Voters for it could scarcely have returned to their constituencies with safety from writs *de lunatico inquirendo*. No doubt in founding this system Chase felt that he was reviving the old United States bank, by which institution he was in early life employed as counsel. And the morsel from the Egyptian flesh-pots became the sweeter under his tongue, as, in rolling it, he thought of the sharp letter of John E. Williams and the blame cast on him by all the New York bankers.

Jefferson said of the first Bank of the United States: "It is known that the very power now proposed as *a means* was rejected as *an end* by the convention that formed the constitution: a proposition was made to them to authorize congress to open canals, and an emendatory one to empower them to incorporate; but the whole was rejected, and one of the reasons urged in the debate was, that then they would have power to create a Bank, which would render

the great cities, where there were prejudices or jealousies on this subject, adverse to the reception of the constitution."

The doctrine of the court in *Veazie Bank vs. Fenno* is that the tax on State bank circulation is not a direct tax but that "it may well be classed under the head of duties." (8 Wallace p. 547.) The power to lay and collect duties is given for the purpose of raising revenue. To use it for the purpose of reducing or cutting off entirely a source of revenue is absurd, dishonest and unconstitutional, being so plainly an abuse of the power as to make it in fact quite a different power from the one conferred and pretended to be used. It may be said that the taxation of national circulation would be a source of revenue equal to that destroyed with the state banks. The answer to this is the obvious one that to destroy one kind of circulation and substitute another that pays the government no more revenue, is not necessary in any degree and is hence unconstitutional. Doubtless the court imagined itself on an immovable foundation when it placed this tax among duties and not among direct taxes, for it had in view the prohibitory duties on imports as a precedent. The practice of prohibiting a business under pretense of making it pay its share of the public revenue, is equally absurd, dishonest and unconstitutional no matter to what object it is applied. It might be used so as to close up all breweries, distilleries and wine presses, and to prevent the raising or importation of tobacco, which certainly was not intended in giving the power to tax them. Previous to the constitution the archaic and barbarous policy of restricting and hampering trade was general. This power was exercised against foreign nations and against each other by the several states. The constitution destroyed this power. It also gave congress the power to regulate commerce among the states, with foreign nations and with Indian tribes. When the constitution was adopted no one would have been so foolish as to claim that it merely transferred the power to hamper the commerce among the states from state to federal authority; nor would such a claim be made now. Yet the equally foolish claim is made that the power to hamper the trade between all the states and any or all foreign countries has merely been transferred from many heads to one, from state to federal authority. Before the constitution the states coined money, emitted bills of credit as money and made other things besides gold and silver a legal tender. By the constitution they surrendered it. At the same time congress was empowered to coin

money and to regulate its value and the value of foreign coins. The natural conclusion from this is that congress must protect its coinage, or at least must not in the exercise of any implied power issue a paper currency that is inseperable from abuse and that invariably displaces its coinage to a greater or less extent. Nor can it lawfully depress the value of foreign coins, for this makes an impediment to trade with foreigners, thus transgressing the constitution in two particulars. The sole reason for its present policy of depressing the value of foreign silver coins is that they must be kept out of the country to make a demand for the national bank currency; certainly not an argument in favor of the constitutionality of national banking.

In the pamphlet called, "Notes explanatory of Mr. Chase's plan," printed at the government printing office in 1861, the following occurs: "Hence, the only reason for investing the national government with power to coin money, was to get the highest and best known authority stamped upon our medium of exchange, and as by common consent we use paper instead of coin as a currency, it becomes the absolute duty of the government to furnish us with evidence of its value."

It is stated on good medical authority that when laws prevent or reduce the consumption of beer in certain parts of the United States, the consumption of laudanum increases correspondingly. The collectors of internal revenue, ought on this principle to make the druggists pay a liquor license without any law to that effect, because the consumer has substituted opium for beer and made it perform the functions of beer in one respect, and it should as a matter of course perform its function in raising revenue. In England it was the custom to give to servants who took the total abstinence pledge additional wages corresponding to the value of the beer no longer consumed by them, but this was abandoned on discovering that their consumption of bread increased so as to equal the value of the beer renounced. An exciseman as skillful in construing law as these men are in construing our constitution, would have been at no loss by this change but would have made the bread pay the beer tax. The fallacy of this construction was fully exposed in the last chapter.

In the case of *Veazie Bank vs. Fenno*, replying to the argument that the tax "is so excessive as to indicate a purpose on the part of congress to destroy the franchise of the bank and is there

fore beyond the constitutional power of congress," the court said: "The first answer to this is that the judicial cannot prescribe to the legislative departments of the government limitations upon the exercise of its acknowledged powers. The power to tax may be exercised oppressively upon persons, but the responsibility of the Legislature is not to the courts, but to the people by whom its members are elected. So if a particular tax bears heavily upon a corporation or a class of corporations, it cannot for that reason only, be pronounced contrary to the constitution." The court here turned its grave judicial eyes away and refused to see the truth or speak what every member of it knew to be the truth, namely that this act of congress was not for the purpose of raising revenue from the state banks by a duty, but for the purpose of destroying them and building up a system of national banks.

In the next paragraph, however, the court went on to answer the objection another way, and to make the justification for establishing these banks that it doubtless saw was required by the facts. It said: "But there is another answer which vindicates equally the wisdom and the power of congress. It cannot be doubted that under the constitution the power to provide a circulation of coin is given to congress. And it is settled by the uniform practice of the government and by repeated decisions that congress may constitutionally authorize the emission of bills of credit. It is not important here to decide whether the quality of legal tender in payment of debts, can be constitutionally imparted to these bills; it is enough to say, that there can be no question of the power of the government to emit them; to make them receivable in payment of debts to itself; to fit them for use by those who see fit to use them in all the transactions of commerce; to provide for their redemption; to make them a currency, uniform in value and description, and convenient and useful for circulation. These powers, until recently, were only partially and occasionally exercised. Lately they have been called into full activity, and congress has undertaken to supply a currency for the entire country."

It continued that "both descriptions of notes may be described as bills of credit, for both are furnished by the government; both are issued on the credit of the government; and the government is responsible for the redemption of both."

It is startling to notice that in less than a century from the time that the convention to frame the constitution positively re-

fused and rejected the proposition to give congress the power to "emit bills of credit," the supreme court decides that congress has that power in the very words. It shows the utter futility of paper constitutions against those determined on robbing the people of their liberties. The phrase "emit bills of credit" was in our early history almost solely the synonym of the present phrase to "issue circulation." The power to borrow money and emit bills of credit was given by the articles of confederation and both powers were exercised, but under the constitution only one is given but both powers are exercised under the pretense that they are both included in one. Then a congressional majority is all that is necessary for repeating the continental money deluge.

Money existed before the constitution. That instrument speaks of it as something already known. It empowers congress to see that money is genuine, certify to its weight and fineness, coin it. To declare what quantity of money shall be its unit and to give the unit a name are not unreasonable powers to infer from the power to coin it. The constitutional power to coin money does not convey with it the power to name anything else money, and treat it as money. The constitution declares that no state shall emit bills of credit, but congress can, as soon as the bills are ready and before they are emitted, declare them to be "lawful money." Then the states can emit them and they would be paying out money. This is the kind of reasoning our most important interests now depend on. If congress may decide the meanings of words in the constitution and change the meanings when necessary and be the judge of the necessity, it has unlimited power.

The power to emit bills of credit, whose usurpation by congress is here justified by the court, is not as the court indicates, rooted in the power to coin money, but in the power to borrow money and issue certificates of indebtedness therefor. The greediest of the bankers have added to the opinion of the court but one point—that the debt be perpetuated for the benefit of the banks. The opinion of the court assumes that congress may do this, though it does not express it. The court in deciding afterwards that the legal tender quality could also be added, only took another step in the path in which Chase led them. Inasmuch as the court says here that it had been the uniform practice of the government to emit bills of credit and that it may fit them for use in all the transactions of commerce, make them a currency for circulation,

it is worth while to examine the various acts to authorize the issuing of treasury notes. The first act is that of June 30th, 1812. It provided that the notes should bear interest at the rate of $5\frac{2}{3}$ per cent., should be transferable by delivery and assignment endorsed thereon by the person to whose order they were payable on the face. The president was authorized to borrow money on them and could pay them to such banks as would receive them at par and give credit to the treasurer of the United States. Such portion as the president might think expedient could be issued in payment of supplies or debts due by the United States to such public creditors or other persons as might choose to receive them at par. They were made receivable for all duties and taxes and sales of public lands. The persons paying them in were required to give duplicate certificates on the books of the collector, receiver or other public officer or agent, stating the number and amount of principal and interest of each note. Such agents were to be charged with the interest from the day they received the notes until the day they should pay them over. But no such charge was to be made if the notes were paid by the collectors into such banks as would receive them as specie and give credit to the treasurer of the United States for the face and accrued interest to date of payment. The notes were to run one year; the amount authorized, \$5,000,000. The next was the act of Feb. 25, 1813, authorizing five millions, and if necessary five millions more. "The amount of money borrowed or obtained by virtue of the notes" was to be part of sixteen millions authorized to be borrowed by another act. They were to run one year and bear interest at the rate of $5\frac{2}{3}$ per cent., and the other provisions were substantially the same as in the act of June 30, 1812. The next, that of May 4, 1814, authorized the issue of five millions, and five millions additional if deemed expedient by the president. They were to run one year, bear $5\frac{2}{3}$ per cent. interest, were payable to order, assignable by endorsement, receivable for taxes, and persons paying them in must give certificates as in the acts heretofore quoted. The next, the act of Oct. 12, 1837, was for not more than ten millions, to run one year, and bear 6 per cent. interest. The bill was substantially the same as the previous ones, and a proviso was added forbidding the re-issue of the notes. The next, that of May 21, 1838, authorized the issue of notes to replace those issued under the last act, and paid in and cancelled.

The next, of March 2, 1839, was for the remainder of those authorized by the last act. The next, of March 31, 1840, was additional to the last one. The next, of Feb. 15, 1841, was for an issue under the act of Oct. 12, 1837. The act of April 15, 1842, for the extension of the loan of 1841, provided that the due and unpaid treasury notes of Oct. 12, 1837 or subsequent acts, or any treasury notes that might be issued under them, should bear six per cent. interest, payable semi-annually. The next, of July 22, 1846, authorized the issue of treasury notes not to exceed ten millions, under the provisions and limitations contained in the act of Oct. 12, 1837. They were not to bear interest at a higher rate than 6 per cent. This act contains a provision for "paying the amount of certain treasury notes, (which, having been received or redeemed by any authorized officer of the government, were subsequently purloined or stolen and put into circulation without evidence on their face of their having been cancelled,) to the respective holders," if innocent holders and purchasers for full consideration. This is the first case where the word "circulation" occurs in any of the acts. The independent treasury act was then passed, Aug. 6, 1846. An act, Aug. 10, 1846, for the special purpose of taking up treasury notes stolen before being cancelled, uses the word "circulation" twice. The next, of Jan. 28, 1847, provided for the issue of twenty-three millions of treasury notes of denominations of not less than fifty dollars, to run for one or two years, and bear not more than 6 per cent. interest. They could be issued "to such creditors as might choose to receive them;" the president could "borrow money on the credit of such notes," but none of them could be "pledged, hypothecated, sold or disposed of in anywise" for less than par and accrued interest. They were subject to the same rules as those issued under former acts and in addition all officers and agents receiving them for the United States were requested to take a receipt on the back of the note from the person from whom it was received. The next, of Dec. 1857, was for twenty millions, no note less than \$100, to run one year, and bear not less than 6 per cent. interest. The register and treasurer were to keep separate accounts showing the number, date, amount and rate of interest of each note paid out and each one taken in. The next, of March 3, 1859, authorized the president to issue and re-issue notes under the last act. The next, of Dec. 17, 1860, authorized the issue of notes of denominations of not less than fifty

dollars, to run one year and bear interest. They were transferable by endorsement of the person to whose order they were payable and receipts were to be taken on the back when paid. The next, of July 17, 1861, provided for the issue of treasury notes of not less than fifty dollars each, bearing $7\frac{3}{10}$ per cent. interest. This was the first act making the treasury note transferable by delivery only. It specified that the seal of the treasury was not required. It also provided for the issue of notes as low as ten dollars, not bearing interest, to be paid for coin or for dues from the United States. The next, that of Aug. 5, 1861, authorized the issue of non-interest-bearing treasury notes as low as five dollars. The act of Feb. 12, 1862, the next one, was for the issue of "United States notes" of denominations not less than five dollars. The next, of Feb. 25, 1862, was for \$150,000,000, of denominations not less than five dollars, non-interest-bearing "United States notes," and declared "lawful money and a legal tender in payment of all debts, public and private, within the United States, except duties on imports and interest" on bonds and notes. Cæsar was now across the Rubicon. A curious feature is, that when the president issued them, as was the original practice, they were "treasury notes," but soon after, the custom of authorizing the secretary of the treasury to issue them was adopted, their name was changed to "United States notes." The act of Feb. 12, 1862, was for United States notes by its title, but only "notes" in the bill. That of Feb. 25, 1862, called them United States notes in the body of the bill for the first time. The acts of May 21, 1838 and March 2, 1839, authorized the secretary "with the approbation of the president," to issue the notes. That of May 10, 1846, relating to stolen notes authorized the secretary to issue notes in lieu thereof. The text of the old bills shows as plainly as possible that the intention of the law was that fitness for the important commercial use known as circulation, like bank notes, be carefully withheld from these notes. Imagine the holder of one of the present legal tenders receipting on the back of it, even when not worn, crumpled and greasy. The issue of non-interest-bearing notes as low as ten dollars showed an intentional abandonment of borrowing money, and the adoption of a plan for making fiat money. A certificate of debt is not necessarily intended for circulation because transferable by delivery, nor does bearing interest prove it was not intended for circulation, nor does its small

denomination show it is meant for paper money and not for an interest-bearing investment. But when the notes are non-interest-bearing, of small denominations, and payable to bearer, they are certainly meant for paper money and will be such when paid out. None of these qualities ever appeared in any of the acts previous to July 17, 1861; all of them were combined in some notes issued then and under every subsequent act. So that in one of the material assumptions on which it founded its decision, the court was in the plainest error. This assumption being false, the whole decision falls, for it virtually assumes that a long practice of issuing paper money has been settled by frequent decisions, whereas no such practice ever existed. Considering their uses, there is more difference between the old treasury notes and the new national bank notes than between the latter and coin; and the Greenbackers' doctrine that congress may coin paper or coin credit, because it can coin money, is rather more logical than the supreme court doctrine that because congress can borrow money and give evidences of indebtedness, it may therefore charter banks for the purpose of supplying the country with a paper currency of the public credit and may tax all private bills of credit out of existence.

From this decision, and from that of *Knox vs. Lee*, it is seen that congress may make the bills of these banks a legal tender if it choose to do so. Under the three decisions of *McCulloch vs. Maryland*, *Veazie Bk. vs. Fenno*, and the legal tender decisions, together with its practice under usurpation of the power of restricting the coinage at will, congress may intentionally and persistently drive out and keep out coin and refuse to coin any more, thus refusing to perform its only constitutional function with respect to money—coin it and regulate its value. And it is the sole judge of the necessity of doing it.

The use of private credit as circulation is now impossible, on account of the ten per cent. tax. Congress may repeal the national bank act at will, and the president and the senators from thirteen states may prevent the repeal of the ten per cent. tax. Congress may put a ten per cent. tax on the capital and on the deposits of state banks, if we are to believe the court, and may thus destroy all banking in the United States. Yet the court all the time holds that states can constitutionally charter banks. The states can charter them but congress can destroy them. In the work of Britton A. Hill, called "Absolute Money," he advocates the issue

of paper, not promising to pay money but declared by congress to be money itself, and the total disuse of coin. He does not need a syllable more to justify him in putting his doctrine in practice than he finds in those three decisions of the Supreme Court of the United States, if his party can get control of congress. How necessary then for the people to put some restraint on this mad or venal court.

Nelson, and Davis, JJ., dissenting, said that the power claimed in *Veazie Bank*, etc., was a power that might annihilate the power of the states to incorporate banks. In this they held the same opinion that the court expressed in *McCulloch vs. Md.*, that the power to tax the circulation of the branch of the United States Bank in Baltimore, would be an acknowledgment of its power to drive out that branch. But the court in holding that the federal government may put a tax of ten per cent. on the circulation of state banks abandons the doctrine of *McCulloch vs. Md.*, for it is a power acknowledged by the court to be constitutional in both cases. Thus, a Bank of the United States is constitutional, and no state can tax its notes: state banks are constitutional (here the court reverses itself), but the federal government can tax them out of existence. Each decision is not only vicious itself, but lacks the virtue of consisting with the other.

At the first glance, it seems plain to any one, from the well known principle that a corporation can not exercise any powers but those granted it by its creator, that a state bank, having no natural power, and no power conferred by the state, to "become" a national bank, can not "become" a national bank by mere congressional invitation to do so by a simple summersault. But the national bank act provides that a state bank may exercise powers not granted it by the state: it may "become" a national bank and as such congress may, in its discretion, free it from state taxation. The majority of the supreme court sanctions this, as it does all the other usurpations of congress. It decides that this conversion is only a change but no dissolution of the original corporation. If the United States can throw out enabling acts for inducing state banks to get out of the control of their creator, why may it not do so with all other state corporations? Some discussions on the propriety of putting the railroad corporations under congressional control have lately occurred. This practice under the national bank act shows how it may be done, under the power to reg-

ulate commerce. But almost every branch of business that is carried on, is carried on by means of corporations: they, too, may be stolen by the federal government in the same way, grocer companies, candy, cracker, live stock, iron and steel, furniture, agricultural implement, boot and shoe, millinery, baked bean, prepared baby food, condensed milk, clothing, "patent" medicine, and every other imaginable company, might be by a law of congress allowed to turn its back on the state and become national and be exempted from state taxation. There is no need of congress using its discretion as to the "degree of necessity," it could invoke the power to regulate inter-state commerce. As seen in a former chapter, it could give the monopoly of these things to certain ones. It is useless to say that congress will never exercise this power. If the republic have a long life, no one can foresee what congress may attempt to do. And if we were assured that the use never would be attempted, it is important to show the absurdity of claiming the existence of the power. The sanity of the makers of the constitution ought not to be permitted to be thrown in doubt by such explanations of the meaning of the instrument, as the majority of the court has seen fit to give.

By a very little trouble, the court might have saved this decision from one incongruity: doffing the gown and donning the cap and bells, before delivering it.

Putting together Hamilton's claim that congress may appoint the thing in which taxes shall be paid or may order them paid in kind, and the doctrine of *McCulloch vs. Md.*, that the power to tax is the power to destroy, one may logically conclude that congress may collect poll taxes in kind, and the degree of necessity for so doing is decided by congress, and there is no appeal from it except to the people, who might be effectually disfranchised by the *decapitation* tax before they could elect a new congress. Those who object to the ridiculous conclusions forced on them by their premises may say that their declarations are subject to such well-known principles as that life cannot be taken under pretense of taxing. It is no less true that people cannot be robbed of property rights by servants under pretense of administering their master's affairs.

One of the powers in the constitution from which they infer the power for congress to charter banks for furnishing permanently a safe and uniform currency for the wants of trade, is that of regulating commerce among the states. But what sort of a right can

the federal government set up to charter banks for this purpose when it destroyed the state banks' circulation and is now preventing a return to the natural commercial currency? Can it allege the weakness of banks through which it lived to carry the war to a successful issue? Suppose that upon the inauguration of banking or financial systems, by the several states, tending to impede "commerce among the states" — that is, from one state to another, not within a state — the federal government can charter banks under the power to regulate that commerce: the exercise of that power would not depend on the existence of a public debt. Yet, that it does so depend is the absurd proposition of the advocates of the present system. And its not only depends on the existence of a public debt, but requires some event as extraordinary as the last war in order to create a debt sufficient for the purpose. Secretary Chase's report in Dec., 1861, showing the advantages of the bank plan over the issue of notes directly, for the purpose of raising means to carry on the war, contains the following: "If the secretary has omitted the discussion of the question of the constitutional power of congress to put his plan in operation, it is because no argument is necessary to establish the proposition that the power to regulate commerce and the value of coin includes the power to regulate the currency of the country," etc. The war was to be carried on by means of the power to regulate commerce among the states, with foreign nations and with the Indian tribes! How fortunate that the federal government has the power to regulate commerce in these three cases, otherwise it could not get the means to carry on war. Whatever congress may do under the power to regulate inter-state commerce, it can only do one thing with the credit of the United States — borrow money on it. It can neither bank on it nor farm it out to others to bank on, for the convenience of traders. Men engaged in inter-state commerce it can free from the shackles put on them by state authority; but it cannot give certain of them, nor any of them, the use of the credit of the United States as currency and forbid all others the use of their own credit in the form of currency. It can permit commerce for that is liberty; it cannot force or impede it for that is paternalism or tyranny. If it were to become necessary for the federal government thus to charter banks under the power to enforce freedom of trade among the states and with foreign nations, it could not, for another reason, allow them

to use the credit of the government as their currency: it is of unstable value, and would not accomplish the purpose of furnishing a medium of transacting business between the states and with foreign nations, of "fixed and uniform value." During the war and for many years after, the holder of notes of a failed national bank had to take, instead of dollars, promises to pay dollars, which were at a great discount. This was an impediment to commerce between the Pacific states and others, and between the United States and foreign nations. The government in chartering banks and compelling them to use its credit was thus engaged in perpetrating a wrong which it is its duty to prevent the states doing, and which it certainly has no constitutional power to do itself. And the states have the power to protect themselves against it, as the Pacific states did to some extent. Because the bills of a certain state institution are not current all over the United States it is alleged that it shall be forbidden the use of its credit in the form of circulating notes and the federal government shall supply them under the power to regulate commerce between the states. But on the same ground we may depose the federal government, for its bills are not current in foreign nations and are every where subject to fluctuations in value from time to time.

Suppose it is claimed that congress has the power to regulate commerce among the states and in order to do this it must control banking and the currency; that it may do this while the national debt exists for this reason and because it is a continuation of the assistance to the government in respect to the debt; and that it may amend the present law when the debt is paid off and still control banking and the currency and forbid the states having anything to do with them. The dissenting justices in *Veazie Bank* etc. said: "It is true, that the present decision strikes only at the power to create banks, but no person can fail to see that the principle involved effects the power to create any other description of corporations, such as railroads, turnpikes, manufacturing companies, and others." The court had said that the freight receipts, bills of lading and passenger tickets were equally subject to taxation with bank-notes. If congress ever think it necessary, then, it may charter "national" railroad companies and tax all others out of existence as it tries to do with banks. Recur now to Coe's analysis of banking and remember that the country store is the same thing as a bank. Then if the federal government can charter corporations for the one pur-

pose why may it not for the other? Upon some such grounds it might be claimed by the constitution-stretchers that under the power to regulate commerce among the states and with foreign nations congress could charter corporations for carrying on all the various branches of trade and tax all private parties or corporations chartered by the states to do the same business, or otherwise restrict them, permitting them only to buy and sell or transact any business within their respective states, or to engage in handling within the state only those things that originate in it. Their principle is that congress is the sole judge of the necessity of so doing.

As first introduced, the bill allowed a total bank capital of \$200,000,000, but as passed it was \$300,000,000. By the Resumption Act all restriction was removed and the amount of the public debt might be turned into national bank notes. But it is in the power of congress to restrict the amount of circulation again. Here we have the objection so well taken by Coe in full application and it can not be too often brought to notice. Sherman tried every way to keep the national banks out of the reach of state taxation, and Chandler assured the senate that three bankers had just told him that such taxation would kill the system. (Cong. Globe, Apl. 27th 1864.) Sherman said: "My own preference * * * is to establish a uniform rate of interest by our law, but having been overruled" etc. (Congl. Globe May 5th 1864.)

Banking is not essentially different from any other business, and if congress can control this and take it entirely out of the hands of the states it can do the same with every business that exists, down to the humblest peanut stand or match-peddler, not for its own needs but out of a paternal disposition. But national banking, at the time of the decision that it was constitutional, was a monopoly. Its advocates were as much in favor of it then as now. Putting all these together we see that the whole claim is that the federal government may control the entire commerce and trade of the country, that passes from state to state, every sort and kind carried on by man, and may give the monopoly of any part or all of it to such persons, many or few, as it may please, and congress is the unquestioned and unquestionable judge of the necessity of doing it. The only escape from the utterly absurd position into which the advocates of the system are driven, is to acknowledge the truth however unpalatable, that the act to provide a national currency is not, never was and cannot under any circumstance possibly

be a law made in pursuance of the constitution. There are some who would consider it a great gain to thus absorb the entire powers of the states and exercise them through the United States. Without arguing the question of the relative advantages of the two forms of administration of our affairs, it is sufficient to say that the absorption can not take place without changing the constitution, lawfully or lawlessly.

In *McCulloch vs. Maryland* the court decided that congress could charter a bank as a necessary means of carrying out some power it possesses. But it is scarcely possible for such a necessity to arise. It is the duty of the federal government to forward the mails, but we cannot imagine that it will ever be necessary for it to build railroads primarily for the exercise of this power. It must provide cavalry horses for the army, but it is not likely that it will ever be necessary for it to breed them for this purpose. And as it can always use the lines of transportation owned by corporations and can buy all needed supplies from citizens, so the state banks and private bankers will always be able and willing to aid it in its financial operations. Yet some in high places would have us believe that congress may either build railroads especially for carrying the mails or hire the mails carried on those already built, and no one can question it, because it is the judge of the degree of necessity.

In the concluding lines of his paper Walker says, "the integrity of the national banking system can only be maintained, and its great advantages to the people secured, by making it exclusive of all others." In *McCulloch vs. Maryland* it was decided that, if certain means to carry into effect any of the powers expressly given by the constitution to the government of the Union, be an appropriate measure, not prohibited by the constitution, the degree of its necessity is a question of legislative discretion, not of judicial cognizance. But not only is there at present no dispute on the degree of necessity for the national-bank system under the law as expounded in the case of *McCulloch vs. Maryland*, but there is no pretense of any necessity at all, so far as concerns the government. There is only a claim that it is better adapted—not to the constitutional purpose of borrowing money, but—to the profit of lenders and the convenience of borrowers and traders. At this time this is the sum and substance of all of the arguments in defense of the system. Its defenders say that the retirement of national notes will

result in the issue of state bank notes. They are fighting for a national system that will save the people from state banks. Walker only pretends to show that the issue of notes through the so-called banks costs a little more than to issue them directly from the treasury, and that the former is more convenient for commerce. His chief fear is that state banks will again arise and plunder the people with pretended bills of credit. But were we threatened with a flood of "wild-cat" notes to-morrow, the fact remains that the federal government has no power to use the public credit primarily for the convenience of traders and the safety of the people in this respect. It is to be noted here that the premises of one of the old parties, supporting federal banking, and those of a new one supporting the "absolute money" idea, are the same. The chief difference in the details of their plans is that one can only keep its representatives of the power, wealth, sovereignty etc. etc., at par by complex and stringent laws and the payment of immense sums as interest on the securities; the other party offers to do the same by law alone. Whatever color of constitutionality may have been claimed for the act when it was passed, as necessary to the power to borrow money on the credit of the United States, there is not a shadow of right now to charter a new national bank or to renew the charter of an old one. During the war the question for congress to decide was, whether for the needs of the government it should use the public credit one way or another—by a direct issue of bills or by issuing them by means of the national banks. But whether congress may grant these banks the use of the public credit in the form of the so-called bank notes, for the convenience of trade, forbidding the use of private credit in this way, or shall cease to do so and leave those engaged in trade to the management of their own bills of credit is a question for the courts. But it is useless to bring it before a court made up for the purpose of deciding it a certain way. There is neither common sense nor constitutionality in taking people off their own feet and putting them on the back of the government; refusing them the right to the use of the private credit they may possess and requiring them to trust all and confine all to the public credit. To do so for their convenience and safety is not provided for in the constitution and is communism.

There is a great deal of human nature even about the chief justice of the United States, and we must remember that in passing judgment on the constitutionality of the legal tender acts,

Chase decided against a law to which he had never agreed; but in declaring in *Veazie Bank vs. Fenno* that the national bank act was constitutional, he was passing upon his own case and merely giving another approval to the great hobby of his life. The *Dred Scott* decision is not more completely overthrown to-day by the people, the masters of the supreme court, than is the *McCulloch vs. Maryland* decision reversed by the same power. The only difference is that in one case the point has been made secure by a constitutional amendment, and in the other that necessary barrier against usurpers is yet to be erected. The greatest defect in our system is the want of a plan for enforcing the will of the people against the supreme court. When the people reverse the decision of that court all but the dissenting minority should resign from the bench, in cases of such importance as whether the government shall be communistic or not. Probably the reason the people did not at once amend the constitution so as to forever prohibit federal banking, but did make sure of the popular reversal of the *Dred Scott* decision, is that they are more careful and decided on the question of personal freedom than on one that appears more as a question of property only. The objection to amendments is always pertinent that with each amendment a thousand doors are opened to usurpation under the name of implied powers.

Chase may have determined to show the bankers that he knew more about finance than they did and to accomplish a feat that would put his fame as a financier forever above that of the bankers who differed from him and who charge him to this day with the great financial error of the war. Chandler said: "It did seem to me three or four days ago that the eastern banks were going to succeed in defeating this great banking scheme." (May 5th, 1864.) Sumner said the currency would "constitute an epoch in the history of the world." He spoke of Colbert, Peel and others of other countries, and predicted for Chase immortality of fame when he should have triumphed over the "mutiny of state banks" and the "luke warmness of senators." This was Sumner's return to the state banks for making it possible for him to be in Washington when Early and others were about driving him and the rest of the inhabitants out. If Chase had in the national bank notes intended only an expedient to last during the life of the legal tender paper in which they were made redeemable, the system might perhaps be considered a justifiable experiment in financial legerdemain. But

as the government is only safe in making the guaranty while it can exercise the power of creating money by fiat ; knowing as he did that this power is a gross usurpation ; knowing as he ought to have known that the notes of the banks do not represent the credit of the banks but that of the government, yet attempting to build of such materials a permanent system of banking to suit the purposes of the government and of commerce, he is materially lacking in what constitutes a great financier. Conceding him great intellect and honesty of intention, he was no match in their own line for the trained giants of finance in New York with whom he failed to agree. And when this third and last attempt at federal banking shall have become a memory, as it inevitably must, the difference of opinion between the New York bankers and Chase, that occurred in 1862, will be forever settled in favor of the former. The state banks that so faithfully served him, that were rewarded by having their coin base taken from under them by him, forcing them into a suspension and disrepute that was then used as the justification for putting them into an unconstitutional, irksome and unpopular uniform, and depriving them of their ancient privileges, will then be vindicated.

Over no pages in our history is one forced to blush for our "great men" as we must over the belittling of themselves by Hamilton, Marshall, Webster, Clay and others, in their attempts to discover the power to incorporate banks in the federal constitution, and their defences of the power after it was usurped or unnecessarily used. Upon no subject have so many men of so respectable an order of mental qualifications, and so many of the highest grade of statesmanship, ever been deluded into uttering such colossal absurdities as upon the subject of federal banking. Jackson himself wavered on this point. Not so with that faithfulest of all the friends of liberty, Jefferson. This is the train of usurpation ; the government can borrow money and can emit evidences of indebtedness therefor ; can issue them in any denomination (even as low as three cents) ; can make them non-interest-bearing and transferable by delivery ; can fit them for circulation as money ; can issue them through banks ; can charter banks for the purpose ; can forbid the use of any other credit in a way that would or might compete with them as circulation ; can allow these banks to perform other functions usually performed by banks ; ought not to permit any other banks ; can do this for war purposes ; can continue

it in peace; can make the currency useful for commerce; can make it sole and permanent; can forbid the use of any other credit in time of peace and for commercial uses as circulation except this; can make the national debt perpetual for the purpose of furnishing a uniform currency; can make the national notes a legal tender for all debts; (here it is reinforced by the power to refuse to coin money, inferred from the power to coin money); can drop silver from the coinage, and can drop gold in the same way or can put on prohibitory mint charges. Here is a power given notably for the purpose of enabling us to get rid of paper money, especially legal tender paper, and securing a coin circulation, interpreted by the highest legal tribunal to mean precisely the opposite thing. The argument for the constitutionality of the system is curious as an example of pseudo-logic and as an illustration of insidious usurpation of power. First: It is an exercise of the power "to borrow money on the credit of the United States," made during and on account of war, for the needs of the government. The war ends; the debt is all in the hands of holders perfectly satisfied with its terms, and the needs of the government do not require the system. Then under the pretended demands of trade it continues, resting on the power "to coin money and regulate the value thereof," and the power to "regulate commerce among the states and with foreign nations." On examination it is opposed to the exercise of any of these powers.

On the point of constitutionality the matter may be summed up thus: First: The act to provide a national currency was never a law necessary or appropriate to the power to borrow money on the credit of the United States. Second: There was never any necessity for congress to provide a currency for the convenience and safety of trade, and if there had been congress cannot constitutionally use the public credit primarily and solely for that purpose.

IV.

IS THE NATIONAL BANKING SYSTEM PERMANENT ?

The comptroller says, p. 26, of his report for Dec., 1878: "The business interests of the country demand a permanent system of finance." Suppose the national bank act to have been a necessary exercise of the power to borrow money at the time it was passed ; that it works perfectly or as well as any other for all purposes ; that it were to day the exclusive system of the country, how could it be made permanent ? It could only be made permanent by making the national debt permanent. When the debt shall have been paid there will be no pretext for the federal government to charter these banks. Doubtless it was thought by many at the time the system was put fairly into operation that a debt so unprecedented for us, would never be paid. Spaulding the author of the legal tender acts, in his letter in favor of the national system, Feb. 22d, 1866, referred to the notes of the Bank of England secured by gold and government stocks. But the debt of England will never be paid. We will probably pay ours by the close of this century and reduce it largely in the meantime by purchases of bonds. But our only source of a currency supply is this debt, portions of which are from time to time metamorphosed into currency. And thus as the country is growing and there is need for a greater volume of currency the supply will be diminishing. Twenty years hence we may need a thousand millions of money and only have a hundred millions of debt. When the debt is paid we will be without currency. If this be made the sole system we will then be without banks, for with the debt will have passed away the flimsy excuse for chartering them, as well as the debt out of which their currency is manufactured. In that one sentence the comptroller has made a complete and concentrated condemnation of the national banking system.

Having this point in my MS. six months before, I brought it out in the convention of Missouri bankers in July, 1879. Col. Stephens' position was: "And some object to the national system, 'because its continued existence contemplates the permanency of the national debt.' I hope the day will come when this objection will be opportune; at present it is 'far-fetched' and untenable." Seven months afterwards the perpetuation of the debt for the purpose of furnishing the banks a basis for their currency was boldly advocated again, as was done by many of those who favored it when it was first proposed. Sherman said (Feb. 10th, 1863) "we are about to choose between a permanent system designed to establish a uniform national currency based upon the public credit, limited in amount, and guarded by all the restraints which the experience of men has proved necessary, and a system of paper money without limit as to amount, except for the growing necessities of war."

When in 1862 the allied banks let Chase know that the abstraction of the coin from their vaults would force them to suspend they gave an enemy the keys to their gates. To show the inefficiency of the state systems, was the most important point to establish in favor of the necessity of a national system. And to re-establish federal banking was scarcely less to him than the one other great ambition of his life—the presidency. This may seem like ingratitude in him after the aid he received from them, but it is not necessarily so. It is not cruelty that causes parents to beat their children and tell them "you will thank us for this as long as you live." Benevolence made men burn the bodies of some men to save the souls of others. Chase considered himself a doctor giving the sick banking systems of the country a disagreeable but absolutely necessary alternative. A defense of a direct or indirect issue of government bills of credit in a desperate emergency, after the coin of the country has been necessarily sent abroad, is entitled to charitable consideration. But to attempt to fasten it on the country forever, is an entirely different matter.

But we will not be without banks. In Veazie Bank etc. it was decided that the federal government may tax the notes of state banks out of existence in order to make room for the circulation of its own, when borrowing money by issuing its own through the national banks. But when the debt is paid this law must fall to the ground, and it is but a question of time when state banks will again have a right to use their own credit in the form of circulating notes.

Those engaged in banking will then go back to where they left off when the national system was inaugurated, and lend their own credit instead of that of the government. Thus it is but a question of time when the national system will die a natural death, when the heavy hand of the federal government must be taken from private credit, and the *bete noir* of the comptroller and so many others—state banks with circulating notes—will spring up like a long repressed “jack-in-the-box.” It is probable that on a test of the case in court it would even now be found that the government can no longer tax state bank notes out of existence, as the necessity on its own part has passed away and it may not constitutionally discriminate against them for the alleged convenience of trade. This supposes, of course, a court not organized to make certain decisions and no others, on certain subjects.

Here pausing to look back at the argument on the cost of exchange it becomes plain that when the conditions are present in which we can use the public credit as currency without loss in exchanging, the opportunity so to use it ceases; or the right to suppress the use of private credit as currency ceases and it must, if justice be done and communism abandoned, quickly drive out public credit from the field for this use. Thus under our constitution national banking, if it can exist at all, is in its very nature ephemeral, and state banking is permanent.

The time is at hand when the Pandora’s box of finance—paper money—must be handed back chiefly to the control of the states: the abundant bullion product of our country should be utilized, and credit money which in practice is found under all systems to contain a large “fiat” element should be kept in the closest bounds, if it can not be entirely dispensed with.

V.

OUR FORMER CASES OF NATIONAL BANKING.

There exist among men two types of political faith. From the two great teachers of these faiths among us, we call them the Hamiltonian and Jeffersonian schools. The extremes or ideals of human government or society, are, one in which one person has unlimited power over all the others, and another in which no person exercises power over any other. The Hamiltonian type is a modification of the former, and its constant tendency is to travel back to that ideal; the Jeffersonian is an attempt to approach the latter condition as nearly as the moral and mental development of man at the time permits. The school of sociologists now led by Herbert Spencer is nearly the same as what we call the Jeffersonian; that of which the Russian czar is the present head in Europe, determined on "saving the people from the baneful effects of too much liberty," differs from our Hamiltonian only in degree, being the same in kind. The Hamiltonian school have always thought it necessary to have a national bank as a sort of partner or supporter of the government and for the convenience of the people in commerce. The Jeffersonian school maintains that for its own use the government has control of the credit of the whole country, and as the credit and means of a national bank contain nothing more than the government already controls, such a bank can add nothing to the ability of the government; and that as the government is created by the people and is unable to impart to them anything but what it has first drawn from them, such a bank cannot be in any degree commercially necessary. (Certain powers that might otherwise come under this principle are withdrawn from its operation by being specifically conferred on the government by the constitution.)

Under the influence of Robert Morris, of the Hamilton school, the Continental Congress chartered the Bank of North America (without the slightest authority to do so), and some writers would have us believe that to it we are greatly indebted for the successful termination of the revolution. This ignores the use of the continental issues which, bad as they finally became, answered the purposes of money during three fourths of the war. The bank was not opened until four months after the surrender of Cornwallis; it began business on forty thousand dollars in coin; individuals never contributed but seventy thousand dollars of its capital, and it never advanced to the government over \$150,000 above the balance to the credit of the government on its books. (See Gouge's Hist. Paper Money and Banking, chap. 4, 2d ed'n.) Hamilton says in his report on the subject of a national bank in 1790 that "the aid afforded to the United States by this institution, during the remainder of the war, was of essential consequence." For an exact man like Hamilton to use this phrase instead of giving numerals and dollar marks, is significant. The capital of the bank was only four hundred thousand dollars. It is even doubtful whether there was ever a dollar of the capital paid by any one but the government, as the seventy thousand claimed to have been contributed by individuals was subscribed stock, transferred from a state bank started before the congressional charter was given and on whose foundation the Bank of North America was built. It afterwards got a charter from Pennsylvania. If individuals had contributed a capital of four hundred thousand dollars in coin and conducted the bank with ability, it could have greatly aided the government, but the government could not benefit its own credit by diverting coin from the payment of its many past due debts in order to open a banking business, as it did in this case. The disinterestedness of Morris in starting it is doubtful. He had tried to get a charter for the same purpose in 1763 but failed. The founding of this bank gave him an *eclat* that was of value to him after the war, in his personal business. This bank now issues national circulation but has not the word "national" in its name.

Hamilton's report on the subject of a national bank in 1790, was chiefly an argument in favor of the general commercial utility of banks and was directed towards a large party then opposed to any kind of incorporated banks. If this part of his argument be sound, it does not necessarily follow that the government should in

any manner interest itself in banking; but without this he would have been confined to the point of the usefulness of the bank to the government. But if so confined his report would have been of insignificant proportions, for he could only give as state reasons, that the European nations had national banks and that this one would be a convenience to the government in managing its fiscal concerns. But that Europe has these banks, is a no more conclusive reason for us to have one than to have kings because Europe does; and as for the management of fiscal affairs, his plan of getting the public debt in proper shape, which became the policy of the country, preceded his report on the subject of a national bank more than a year. The "act making provision for the debt of the United States," was passed August 4, 1790; and that creating the Bank of the United States, not until February 8, 1791. It was provided that the United States could make its subscription within eighteen months from April 1, 1791. Thus it played no part in getting the debt into shape.

He claimed "greater facility to the government in obtaining pecuniary aids, especially in sudden emergencies," as one of the advantages of a bank, but acknowledged that the government "as well in some of the most critical conjunctures of the late war, as since the peace, has received assistance from those established among us, with which it could not have dispensed." The appropriate thing to do, then, would be to let the banks referred to grow in their own means and credit so that they could again be of use when needed, and not found a public bank to take part of their business from them, and whose credit would be tied to the government credit. To be such an aid in emergencies the bank must have been a great reservoir of capital from other than governmental sources. In fact it never was such. Its capital was not real and in emergencies it could only have crippled the commerce of the country in unavailing attempts to aid the government. Its own paper and that of the state banks kept coin from accumulating in the country, and but for its presence and example public opinion would sooner have reduced the state banks to a sounder basis and to rational practices in the matter of circulation.

According to Hamilton, it would "facilitate the payment of taxes" in two ways. First: By enabling those who could, to borrow in bank; and second, by the greater convenience for transmission possessed by bank notes over specie. As the capital of the

bank was to be largely composed of government credit here were two ingenious plans for filling the coffers of government with its own credit instead of what was most needed—coin. Applicants for bank loans to pay taxes, are surest of all others to be refused. To give facilities for payment of duties on imports was to hasten the needed coin out of the country and to encourage importations of foreign goods. “The payment of the interest of the public debt at thirteen different places,” made it necessary to have a light portable medium; and trade would be injuriously affected “by the withdrawal and accumulation of these amounts of coin.” In other words, government credit must put up with paper; but traders, who depend for protection to life and property on the government, must have the coin.

His argument, showing the superiority of an issue through a bank, instead of directly by the government was, that the latter is opposed to the spirit of the constitution, that it is more liable to abuse, and that no standard of what is enough can be found. But the offense against the constitution is the same in essence in both cases, differing only in directness. His statement of the argument is substantially this: it is safer for a government bank to emit bills in the regular way of discounting, than for the government to issue bills for its own needs; for nobody proposed that the bank be restricted to discounting for the government or that the government, if the bank were not started, discount for the public. He was comparing the bank as a commercial institution to the government as a government. If we grant that the return of bills to the bank for redemption will keep it from over-issues, and that the issue of treasury notes has no such check, what have the two to do with each other. The bank issues bills as trade demands them: the treasury pays out its notes on account of its own needs only. It proved also that the bringing of its bills back to it by the holders, would limit the capacity of the bank to afford that aid that might be urgently demanded by the government in exigencies. Hence, if the emergency occurred when the possible volume of bills was already out in the hands of public, the government had merely lost the use of so much of its credit as was invested in the bank, and that, too, when most urgently in need of it. But the two statements are not true. Nothing has been more fully proved than that a rising tide of speculation, such as preceeds a panic, will carry out far more bills than any bank ought to emit; and if the

bank depends on the return of its bills as an admonition that they are becoming redundant, it will learn that a pit is near, by falling into it. And when treasury notes are issued in too great volume, they fall below par. Hamilton seemed to think it possible to make the abuse of credit a physical impossibility by means of a bank. It is pleasanter to find excuses than blame for such men as Hamilton, and it is but just to say that he probably knew that the use of treasury notes for circulation would too quickly remind the people of continental bills, and that he considered it necessary to mix up the public credit with private credit, so that the people would not so easily discover it and treat it with suspicion.

Congress chartered the bank recommended by Hamilton, in 1791. One-fourth of its capital, or \$2,500,000, was to be cash. Hamilton acknowledged that coin enough to pay up the whole capital was not to be had. How much of its capital was paid by actual money, and how much by stock notes and other hocus-pocus, will probably never be known. Dr. Erick Bollman, a defender of federal banking, says that the capital of the bank was to be paid one-fourth in specie, but "this specie was not to be paid at once, but in four six-monthly installments, of six hundred and twenty-five thousand dollars each. The bank, therefore, began its business with six hundred and twenty-five thousand dollars specie. * * * The question is, whether it can be presumed that its specie capital increased much by the payments of the second, third and fourth installments. I answer it is highly improbable. [Here follows explanation of the hocus-pocus.] No more, or little more than the first installment, can ever be considered as having been received by the bank in hard money." (Paragraphs on Bkg., Phila., 1810, pp. 22, 35, 64.) It began after one war and ended before the next; so its usefulness in war was never tested. Had it existed in the war of 1812, its insufficiency would doubtless have settled the question of federal banking forever. It taught some people such dependence that they thought the heavens would fall if its charter were not renewed, and were greatly astonished that neither event occurred. Eleven Democrats out of twenty-five voted for the original charter, and fourteen against it; twenty-eight Federalists for and six against it. At the next session, the Democrats having gained in members, came within one vote of passing a resolution declaring the charter unconstitutional. When the bank asked for an extension of its char-

ter, merely to wind up its business (a full charter having been refused), Henry Clay, as chairman of the house committee, reported that they considered the existing charter, or any other, repugnant to the constitution, and declined even that.

It is usual for those who prefer national banking to natural banking, to point to the insufficiency of the support given by the banks to the government in the war of 1812. There can scarcely be a doubt that if New England had aided with as much earnestness as she opposed the government, there need have been no trouble on the score of finances. Her banks took all the coin they could from the other banks and sent part of it to Canada by buying British bills. They literally adhered to the enemy in time of war and gave him aid and comfort. The notes of the banks did not fall as low in the war of 1812 as the government notes did in our inter-state war.

When the idea is prevalent in this country, that fiat can create value, it will manifest itself through the state legislatures, if its action be repressed by congress. One of the beliefs in those days was that banks created value instead of merely collecting means for use. Dr. Bollman said, in reference to the constitutionality of a national bank: "But banks are *mints*! Might not the constitutionality of banks incorporated by state authority, be more justly questioned?" (Par. on Bkg., p. 73.) They were improvements on mints, furnishing material for coinage without cost or labor. State banks considered respectable, had a nominal capital, in 1813, aggregating about eighty millions.

In 1814, after the state banks had been under suspension for the enormous period of *forty-four days*, Dallas, the secretary of the treasury, fled in dismay into the arms of federal banking. Webster opposed the scheme, and it was defeated by the Speaker's vote. Another bill was introduced and passed both houses, but was vetoed by Madison, because it did not oblige the bank to lend to the government, and because it forbid the bank to suspend specie payments. Another bill was got up that suited him. It allowed the bank to begin under suspension, and gave congress power to authorize suspensions, in certain contingencies, in its discretion. The news of peace was received four days before the bill came up in the house, and it was indefinitely postponed by one vote. Gouge says we were thus saved from a "National Bank with a *p  per* capital of fifty millions, issuing notes redeemable in

paper." We have since had the same thing, exaggerated nearly ten-fold and lasting nearly twenty years.

The last bank chartered by the federal government was destroyed by the bull-dog tenacity of Benton, after seven years of war against it. It is not worth while to refer to it further than to say that men grew more and more thankful for its death, until no man in the Union could be found to defend it.

If these systems of banks, founded on the inability of nations to meet their outlays, are so excellent, so beneficent, why do we wait to be forced into them by war? Why not go into them when the nation is free from debt? Why do foxes wait to be accidentally beautified by losing their tails in traps? When gold and silver become plenty, why do they lose their sourness? It is a strange principle to go into the banking business only after one's capital is exhausted, or before one has any.

It would scarcely seem more strange to find oneself under the necessity of again refuting the right of the English to tax us, than to be forced to assail again the claims of constitutionality in federal banking, yet this necessity is upon the people again, notwithstanding they once thought it as completely settled as they now think the slavery question is. The national banks to-day rest on Hamilton's pamphlet of 1790, and on the puerilities that were advanced against the great Missouri senator.

VI.

WHEN SHALL NATIONAL BANKING BE ABOLISHED, WHAT SHALL TAKE ITS PLACE; AND LASTLY WHO WILL ABOLISH IT?

As the banks in this system were chiefly brought into existence, and into a high condition of excellence as banks, under the state laws, and the national bank act merely but a uniform on them, they can be changed back to their former condition at any time without any shock to the business of the country. The national system should be abolished at once and forever. No pretence of necessity for party success should excuse any one from pressing this matter. We must have permanence in finance and not continue dodging into and out of a short-lived system of federal banks once in every generation. There is but one political party in this country that can be expected to abolish federal banking. The other under all names, has favored the continued absorption of power by the federal government and its leaders do not at heart favor popular government. They despise all republics, and have no faith in any theory of government but imperialism. If it be universally agreed to put all power in the federal government, the change ought to be made in the constitution first. To make it mean any and everything desired, is to bring it into contempt. Those who thus stretch the constitution are afraid to risk a proposition to change it, before the people. A law of congress approved by a prepared supreme court is a surer way. No doubt the people will part with federal banking rather than with the constitution.

The strength of the argument of these banks for existence is that they already exist. "What will you substitute for them?" We are supposed to be under the necessity of a direct issue of treasury notes or else "wild-cat" bank notes issued by state banks,

if this system be abolished. Before an existing system of any kind can be abolished there must generally be a substitute proposed for it. It is plain that the banking business belongs to the states, along with all other businesses. People generally fear this because few in this generation remember the facts of state banking; and the power of the government and of the national bankers has been used to falsify history in regard to state banking. There is ample power in the states and the union to prevent the abuse of credit such as occurred formerly under state institutions. We have seen how the states themselves were working in the direction of a sound currency, and that the note holders were held to a stricter personal accountability than under the federal banking act at present. According to the national bank party the uniform value of the paper money is the point to be secured. In trying to make a banking system that would be uniform in all its workings congress attempted a good many absurdities. The only essential point in using credit as a medium of exchange is that it be always worth what it promises to pay—so many coin dollars. All attempts to do this heretofore have failed; all attempts to do it hereafter will fail. Under no possible circumstances can credit be used as a medium of exchange and always be equal to coin in steadiness or in ultimate security, taking the whole volume of circulating credit into account.

In the constitutional power to certify the weight and fineness of the bullion a man leaves at the mint, and to give it back to him in the shape of coin, there resides no power to injure him under any possible circumstances; but in exercising what is claimed as a constitutional power over bills of credit, congress has robbed and impoverished many and has permitted banks to rob and impoverish many, and these results are inseparable from the exercise of the latter power by congress. The unconstitutional power used to restrict coinage by any means is the same in fact as if congress were to restrict the planting of wheat or cotton to what is necessary for home consumption, under the power to regulate commerce with foreign nations. What are we to conclude then? That the exercise by congress of a certain constitutional power is essentially mal-efficient or that it does not possess the power and its exercise hitherto has been in every case a usurpation? For we cannot escape this dilemma. Undoubtedly losses do occur to an enormous extent and will always do so as long as credit is given in trade and that

will be always. But because a custom voluntarily in use among those engaged in commerce or trade invariably causes some losses it does not excuse congress from inferring the power to do a thing that is confessed to be impossible to separate from harmful results, whatever good results it may otherwise produce. This test of the implied powers and inferred powers of course cannot be applied to the specified powers for there is no question about them, whether their results are good or bad. But to infer from an essentially beneficent specified power an essentially maleficent one, is evidently doing violence to common sense no less than to logic.

What power then is to be inferred as resting in congress on this subject? Beyond doubt the fathers desired to get rid of paper money of any kind, as a standard, and have the standard metallic. Whether they intended, by adopting the constitution, to allow the channels of trade and the pockets of the people to be filled with a hard-money currency only, and exclude bank notes is not certain. It is tolerably plain that they did not, but that they expected that the people themselves and the state constitutions, would manage that part of it. They simply meant that by having one coinage and standard, the people would be put in the way of enjoying the best possible currency if they chose; but they do not seem to have intended to exercise the paternal power of making it impossible for the states or people to drive away the coins and injure themselves with paper money. I would prefer to think that the power to coin money implies the power to secure to those who do not wish to dabble in paper money the benefits of the circulation of coin, by whatever means might be necessary. If this were an undoubted power of congress it could at any time have passed an act declaring that no person or corporation issuing bills for circulation, should be limited as to his common law liability for their payment, by any power whatsoever. The use of his credit in the form of circulation being one of man's natural rights of which he cannot properly be deprived, yet the exercise of the right under the protection of artificial limitations of his liability always leading to abuses, there is but the one remedy of leaving him, as to rights and responsibilities, about where nature placed him. There seems to be no doubt that the power to limit his liability resides, if anywhere, in the constitutions of the states only and the power to restore it in the same places. When congress limited the liability of the incorporators of the first and second Banks of the United

States and of stock-holders in national banks it claimed it as one of the necessary and appropriate incidents to the exercise of the power of borrowing money and managing its fiscal affairs, and not as one of its general powers. The necessary thing would seem then to be an amendment to the constitution forbidding the states to limit the liability of any persons in anywise engaged in issuing their credit in the form of circulating notes. No doubt this would be the most effectual plan. This, with the other machinery of law now in operation, would reduce the abuse of paper circulation to the minimum, for each man would then watch himself under pain of his whole estate, and,

“If every one would see
To his own reformation,
How very easily
We might reform a nation.”

For, the habit of inferring so many things from the constitution whenever they are wanted, is the most dangerous, demoralizing and destructive one into which we can fall. But on the other hand it is important not to tinker too much with that instrument, for with every newly-conferred specified power, will creep in a hell-brood of implied and inferred powers, excuses for other usurpations. Therefore let us see what powers congress and the states possess, that can be used for the purpose, and what the probabilities are that they will be used. New York had already provided that the stock-holders of banks of issue should be personally liable for the redemption of the circulation by her constitution when the national bank act was passed. Massachusetts had done the same. Many of the other states had also. Nothing was more apparent than that the states were steadily advancing toward a sound currency, the chief obstacle and one that is still present, being the speculative disposition of our people and their desire to have the means of speculation ample. Except as to the power of the states to make foreign coins a legal tender, the federal government is the only power from which money can come and it must be coin. Banks can promise to pay money and so can individuals, and if people choose to circulate them by accepting and paying them out it is their own business. But when a bank fails to redeem its promise to pay money on demand and still tries to circulate it as money, it thereby changes its bills from promissory notes to fiat money and invades the domain of the federal government. That government can provide against this by making suspension an act of bankruptcy.

But is it even necessary for it to wait for this? If a bank issues more bills than it has coin on hand to pay, it has committed an act of bankruptcy of the same kind but differing only as to time. It has three dollars in bills out, payable all on demand in dollars but it can only pay them provided they are not all presented at once. But they are all due at once. A banker may show ample resources available if time to convert them be given. A merchant may do the same thing, but his promise to pay dollars is due and his creditor will not or cannot wait. It cannot be said that the merchant with notes due at various times, stands in the same category as the emitter of bills, nor that the relations between the bank and its depositors are the same as between it its note-holders. For the emission of bills is between the emitter and the community, but the deposit is only between the banker and the depositor.

Thus it seems probable that no power exists in our country to issue credit money as has been done. It can only be a certificate of deposit of coin, and the coin must lie in vault whilst the certificate is performing its functions. This does not prevent the issue of all the promises to pay other promises to pay, or promises to pay assets, that any one may desire; but no law ought to declare them money or permit them to take its place when the money can possibly be induced to keep the place itself. Credit money ought only to be a supplement to money when absolutely necessary, never a substitute for money. To substitute anything for money, keeps money out of the country if already out, and drives it out if not already out. Credit money ought to be kept distinct from money, and each should perform its function. A "mixed currency" ought never to be so badly mixed as we have generally had ours. A civilization that drives coin into the hands of the barbarians of Asia, may well be brought to bar to show why it shall not be called something besides civilization. The various advocates of credit money think it as good, or better than money. Let them use it, but let it be distinctly known as credit money; and do not restrict our liberty to use money.

The power of coining is not a necessary one to vest in congress. It is there for convenience only. The scales and weights by which the amount of metal is determined, would be a sufficient standard if we had no coins. The coining of it simply makes it more convenient for payments by tale. The actual standard after all, is pure gold and pure silver; and the actual units are grains, not

dollars. The national bank act is strictly in opposition to the exercise of the power to provide a circulating medium of coin, imposed on congress by the constitution. It kept coin out when it was ready to return to circulation; it is now keeping out silver coin. Bankers who are coining credit money out of bonds that are already returning them good interest, cannot be expected to do anything but "let their profits run on."

The only legal tender power in congress is the power to coin money. Gallatin and Jefferson both denied that congress has the power to make anything a legal tender. But congress can coin dollars in money. And all our money contracts are for dollars in money. All judgments are solvable in dollars. No state can make anything but gold and silver a legal tender. It goes without saying that no state can make a foreign coin worth less than a dollar a legal tender for a dollar. So that without possessing in so many words the power to make anything a legal tender congress only can coin money and money of its coinage and foreign coinages of equal value only, can, by any power in our system, be made a legal tender. It would have been superfluous to give congress the power to make money a legal tender, for it becomes a legal tender by our highest law when it becomes money. Congress declares the unit of money, men promise to pay so many units and no other power can make them pay more or their creditors receive less than the law of congress has fixed. For congress to declare gold and silver coins of our own mints a legal tender is superfluous; for it to declare anything but gold and silver a legal tender is false, and to enforce it is always tyranny and generally robbery. Money should take the place of national notes; the money of the constitution, gold and silver coin. If we would adhere to its use, alone, we would find it generally nimble enough to travel the circuit and perform the required labor of buying and paying debts. Our bullion supply would be ample for those engaged in sound business; and speculators, not being able to get it, would have to go to work. When absolutely necessary it could be supplemented by credit money, distinctly known as such. The handlers and dealers in money should be on a footing with those engaged in other trades and the natural liability of issuers of credit money should not be restricted by any exemption laws whatever.

As long as the absurd idea prevails that the constitution transferred the power to hamper and restrict trade, for the benefit of

certain classes, from state to federal authority, it will be difficult if not impossible to be freed from the abuses of paper money. Prohibitory tariffs compel us to pay foreign countries full dollars, and accept from them fractional dollars inflated so as to be apparently full dollars. This constant association of tariffs and the abuse of paper money, has been exposed by Professor Sumner. The power of the tariff and national bank interests is by no means a trifling one to assail. It requires unfaltering trust in the ultimate triumph of liberty, to give anyone, who knows their strength, the courage to attack these formidable tyrants.

To undertake the work we need a leader of sublime courage like Benton, and no such man is now in the public vision. When he shall have been found he will need the strongest support. As to the source from which this must come, there is with me no question. It is the same now as nearly fifty years ago. "For the salvation of the country we must look to the farmers and mechanics. The merchantile classes are so entangled in the meshes of the banks that they can not yield much assistance. For similar reasons little must be expected from public journals in towns where banks are in operation. If the editors are not in debt to those institutions, they are dependent, in a great degree, on the patronage of the bank interest for support; and it would be unreasonable to wish them to sacrifice the means of subsistence of themselves and families to promote a public object, while the great body of the public is disposed to make no sacrifice at all." Insert *national* twice, and this reads as if written for our day.

When once we get organized for the attack, the state bank interest, at first secretly, then boldly, will aid the overthrow of the national system. This interest will furnish a refuge for those editors and mercantile men who will begin to desert an army sure of defeat.

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NOTE.

The following is of interest on the point of bank examiners :
“It is now estimated that the losses occasioned by the defalcations of the cashier of the First National Bank of Newark, New Jersey, and the president of the First National Bank of Brattleboro, Vermont, will amount to \$450,000 and \$400,000 respectively. In each case the frauds by means of which these unpleasant results were reached extend back over a long stretch of years, but seem never to have been suspected until the final crash came. It is difficult for the lay mind to understand how it happened that the bank examiners, whose duty it was to make frequent and thorough examination into the conduct and condition of these institutions, failed so utterly to discover what was going on. The provisions of law for the regulation of national banks are so complete that if the bank examiner does his duty properly it is almost an absolute impossibility for the bank officials or employees to convert the funds to their own use, except by a resort to burglary. But it almost invariably appears, whenever one of these institutions is wrecked, that the examiner either did not attend to his duty, or that he allowed himself to be imposed upon by means that would excite the suspicions of a child. An examiner of bank examiners is next in order.”—*St. Louis Globe-Democrat*, June 19, 1880.

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APPENDIX.

GOVERNMENT PAPER MONEY IN CONGRESS IN 1857.

Howell Cobb, then secretary of the treasury, asked for an act to issue twenty million of dollars of treasury notes for "supplying the treasury with the means of promptly meeting the lawful claims upon it." A question arose about the printing of the bill and Simmons (sen.) of Rhode Island said, "I should like to see it printed. I do not want to vote for the issue of \$20,000,000 of treasury notes, to be kept in circulation as long as the executive may think proper, without knowing exactly what I am doing."

Hunter (Va.), chairman finance committee, said that one difference between this bill and that of 1847 was that the older one contained a provision for funding the notes, which was left out of the bill of 1857, and said, "the impression is, that if it were put there they would be funded, and not perform the office desired." The next time it came up he further explained on the same point, "That is not found in this bill for the reason that if put in, it was apprehended the notes would be funded and converted into a loan; and for the further reason that an inconvenience was found lately, when we were redeeming the public stock, from that clause which existed in the bill of 1847. The holder of the note, instead of claiming what the law designed only to give him — what was due on its face — first funded into stock under that provision, and then claimed a premium on the stock." In reference to the rate of interest he said the intention was, "not to make the interest so high that the notes will be hoarded as an investment, and not to make it so low that they will be below their par value in specie, and thus

come into the treasury in payment of the revenue." He referred to the fact of a large amount of imported goods lying in the custom house in the city of New York, on which the duties, amounting to six million dollars, were unpaid on account of the derangement of business, and said the secretary would be enabled "to use those means which the British Treasury have found so useful, by issuing notes called exchequer notes, which enable them to anticipate their revenue. * * * He spoke further of "using the credit of the government for a limited amount, for the purpose of supplying its temporary wants;" and whether, if it should turn out that the wants were permanent, they should use other means "to replenish the treasury."

Seward said, "that owing to the derangement of commercial affairs and the collection of the revenues consequent upon it, there is a necessity for an issue of treasury notes to relieve the treasury, I think it is clear enough that it is commercially desirable that such an issue of treasury notes should be made in this conjuncture, I believe is also true; * * * I suppose all will agree that the smallest issue ought to be made which can be made, because it is to inaugurate a feature in the fiscal system of the country which must not be permanent, and ought to be indulged in as sparingly as possible. * * * The great object the commercial world has in the issue of the notes at all now, is that they may be used for the purpose of exchange, while the exchanges of the country are deranged. * * * While we thus benefit the government, we afford incidentally the best aid we can afford to commerce, and to those banks which are attempting to resume specie payments."

Fessenden said that, "in the bill that was passed in 1847, and which was strictly a loan bill to meet the then exigencies of the government, the power of the president to issue the notes was limited to six months after the close of the Mexican war."

Simmons commented at length on the condition of the country and said "we have bought more than we have been able to pay for. No ingenuity in framing treasury notes or bank notes will liquidate our debts. We must look to that exhaustless source of wealth, the labor of the people, extracting it from the bowels of the earth and fabricating it into forms essential for society. What we save over and above that which is consumed by this labor is aggregated from century to century, and forms the wealth of the

world." He said that he was proud of the England that fought from Agincourt to the Nile, but expressed dislike for "note-shaving England," and referred to the order allowing the Bank of England to transcend the law, and the advice which accompanied it, to maintain the rate of interest at ten per cent (in 1825). "Then I have doubts as to the propriety of issuing government paper as a currency. We do not say this government must be prohibited from doing a thing in order to make it unconstitutional, because we construe the constitution as a delegation of power, and we are bound by what it delegates to us. If it does not delegate the power to issue paper money, we have not that power. It is clear to me that this measure is hardly constitutional." He then branched off on an advocacy of a savings institution connected with the treasury department and supporting "our own industry against the pauper labor of Europe," and got back to the subject and said, "I would prefer that this should take the form of a loan, and then I think it would get into the hands of the savings banks, or somewhere else, where it would not disturb the currency. Tell us just what you want and I am willing to vote it. I only ask that you will not make a bank out of this. That is the worst and most unconstitutional form of paper money ever devised by the wit of man; it will corrupt the government and corrupt the people."

The chairman of the Committee on Finances, Hunter, said: "I am no more in favor of a permanent issue of treasury notes than the senator from Rhode Island. I design only to provide for the present exigency; provide for the temporary wants of the government, until the times shall become easier and the machinery of commerce shall be once more restored, and we shall be able to derive from the ordinary sources, as I believe we can, revenue enough to carry on this government economically."

Crittenden said: "I wish we were agreed that no interest is necessary. I do not believe it will be necessary; but yet, as it seems to be contemplated that this money shall not be used by the government as an immediate currency to the whole extent of it, but that they shall give it out as securities for gold and silver, and use that, then it may be necessary for them, when bargaining for money, for all I know, to give a little interest. It presents a very singular spectacle, that after the great commercial and monetary crisis through which we have just passed, just at the moment when the banks everywhere are resuming specie payment, the govern-

ment is suspending specie payment." After referring to the issue, and the means of extinguishing it speedily, he continued: "One of the circumstances, at this time, to the issue of a paper currency by the government, is the ease and alleviation it may give to the commercial and pecuniary distresses of the country. I confess that that has its reconciling effect on me. If, at the same time, you can provide for the payment of it by a measure that will press on no American citizen, but, by a proper adjustment of the increased duties on articles of foreign commerce which enter into competition with the industries of our own country, we can, not only aid the man who wants money, but aid the man who wants labor; then, indeed, we shall be doing something that is benignant, and something that is to alleviate the condition of the country. I desire to see both. While I supply the government with money, I want, at the same time, by a corresponding measure, to pay that money by a duty which shall give the laborer labor. That, as the senator from Rhode Island said, is the source of all wealth; but now, in the present condition of the country, we are not required so much to look at it as a source of wealth. We are obliged to bring down our calculations; we are obliged to calculate what is a necessary provision for the poor, now out of employment by the thousands—a fact which we know. If these laborers can be brought to work and made comfortable during this long winter, or made comfortable more permanently than they have been, and the means of subsistence supplied, will not that be a great recommendation to a measure which shall afford them some protection and some encouragement to their labor? We want it for revenue. It would not be a measure for protection, but a measure essentially for revenue. No gentleman here, on any constitutional ground, can have any objection so to apply and adjust the duties, as to afford to the suffering manufacturers and mechanics of our country all the protection which a proper adjustment of the tariff on the articles that ought to be protected, would give them. I mean to vote for the bill."

Bell (Tenn.) said: "If I had the confidence of the honorable senator from Kentucky, in what he supposes will, almost as a matter of course, follow after the granting of this relief, I would express the same sentiment he has done, and give my support cheerfully to this bill; but I have not the smallest confidence that, if we pass this bill, allowing this amount of notes to be issued by

the treasurer, any such thing will follow. As far as I can gather from the expression of the executive, * * * there is no other measure of relief to be proposed. * * * It is not contemplated by those in whose power we are, to relieve the people. If I could anticipate or suppose that, when we authorize the issue of these \$20,000,000 of treasury notes, they will be thrown into circulation and afford a temporary relief to the distressed in every section of the country, and particularly in that section which is now most suffering, perhaps that would be an inducement to me to support this bill. What is the proposition? To relieve the government from bankruptcy; to provide for the government in the true spirit, and according to the original theory of that sublime invention, the sub-treasury! It is to take care of the government at all hazards. I do not deny this is a proper means to support the government; it has been resorted to before."

December 19th, Wilson said: "I am willing to supply the temporary wants of the treasury by this mode. These treasury notes, if the interest is low enough, will not be taken or held by the capitalists, but will be used by the banks and merchants as remittances."

Benjamin (La.) said: "Mr. President, I do not wish to enter into any debate upon the general financial condition of the country. I suppose this is not the time for so doing. The exigencies of the treasury are represented to us as being so imperative, that the executive officers of the government require immediate relief in order to enable them to sustain the credit of the government, by the payment of its debts incurred under appropriations made by us, not by them. The proposition now is to sustain the credit of the government. Upon some other occasion I think we may more appropriately enter into the cause of the financial distress, and into the question of the proper mode of providing a regular and established revenue for the government."

Seward said: "The issue of treasury notes for an unnecessary amount is indefensible, for that would be to constitute the government of the United States a national bank." "Feeling a strong desire to benefit the commercial interests of the country in its reconstruction from embarrassment, I feel a very strong desire that the notes which shall be issued by the country shall not take the character of a permanent loan, but that they shall go into the cir-

ulation of the country immediately as an equivalent of gold and silver.

Davis (Miss.) said: "I look on the proposition that is submitted to us as simply a proposition to borrow money for the immediate use of the government. If the government is censurable for the fact that the treasury is empty, or about to become so, then I can perceive the point of the inquiry as to the cause which has produced the financial distress and thus prevented the receipt of revenue into the treasury. I would say, however, that I have heard not yet assigned what I believe to be the true reason for the diminished revenue of the United States. Among the remarks that have been made, there have been some directed to that interest and to that section of the country which I, in part, represent. The honorable senator from Rhode Island, yesterday gave warning and advice to those who represent the cotton growing region. To-day, time after time, we have heard one cause and another assigned, and among them, chiefly, the great imports of the country. Now, sir, that, as the country increases in its wealth and population, imports increase, should excite the surprise of no man. I am sorry that it should excite the regret of any one. It is a fact that the imports of last year did not exceed those of the preceding year as much as those of the preceding year exceeded those of the year before it. There is a steady progress, owing to the very great prosperity of the country, and something is also due to that excitement which over-banking produced. The sale of cotton is usually transacted by bills of exchange. That is the ordinary commercial course; and the whole embarrassment which fell on the southwest and the lower Mississippi, was due to the fact that the goods were imported into the city of New York which were consumed in that section, and the cotton was bought with bills which were to pay for the goods imported into New York. "When New York, by her extravagance, by her speculation in railroad stocks and western lands, became bankrupt, and was no longer able to pay for the goods she imported, not because there were not consumers in the country, but because they had proceeded on credit alone in their importations, and could not therefore buy the bills of exchange which were to move the cotton—then it was and for that reason entirely, that commercial distress came upon the country." "But I am glad to find that instead of these notes being issued, as has been recommended in some of the commer-

cial portions of the country, merely to throw specie into circulation, to become a safe deposit, they are to bear interest. That interest, and the necessity of assignment from hand to hand as each passes, will perhaps prevent these notes from going into general circulation, and assuming as has been asserted, the character of bank notes." Simmons, on learning that the notes were, after the first endorsement, to pass from hand to hand without further endorsements, said: "Then this measure proposes to make the treasury a bank of issue. I do not object to furnishing money for the purposes of the government; and if treasury notes are to be issued, my desire is that they be put in such a shape as to be a medium of exchange between the different parts of the country, and not used as a medium of circulation, passing from hand to hand." "Let them be issued in such a form that they may answer the purposes of the government, facilitate the business of the country, and alleviate the existing distress about the causes of which we shall probably never agree. I think we should allow no treasury note to be issued for less than \$100; and we should require them to pass only with the endorsement of the holder."

Hunter, after protesting against the wide range the debate was taking, and against attempts to amend the tariff, appraisement, warehouse, and revenue laws, and the whole monetary system of the country by this bill, said: "What we want to know is whether the Senate of the United States will vote for an issue of treasury notes to supply the wants of the government." "If we depart from the simple question, whether we will supply the government in this form and shape, to enter into debates on the tariff, or the warehouse system, or the monetary system of the country, there will be no end to them."

Not heeding this appeal of the chairman of the Committee on Finance, Dixon (Conn.) saying he should oppose no factious opposition to the bill, "that the treasury wants money, and must have it," went to a considerable length in discussing the condition of the country and the causes of it. "We see in the first place the business of the country paralyzed, its commerce, both foreign and domestic, almost entirely destroyed. We see its industry unemployed." "We see, further, the banks of the country compelled for sixty days to suspend specie payment. We see England herself, and every commercial nation of Europe which has had any dealings with us, feeling the effect of our troubles. We find that

the excess of trade, stimulated by our own legislation, has at last wrought its effect in every country which has traded with us; and that now through our inability to consume and pay for what we have purchased from them, they are suffering themselves; showing that our system is not only injurious to us, but is also injurious to those nations who have been supposed to reap a benefit from it. Furthermore, at last we see a bankrupt government. Only ten months ago when I came here to take my seat, I found the senate discussing the question how they might deplete the treasury, how they might reduce the sum of our revenues; and now this proud nation, by its representatives here, is attempting to borrow money and proposes to do it by the issue of paper money." After saying "the financial system inaugurated and established at that time [ten years before] by the senator from Virginia and his political friends, on the ruins of another and very different system" had, in his opinion, caused the trouble, he continued: "Now, sir, the secretary of the treasury comes in with his report, stating that 'a revulsion in the monetary affairs of the country always occasions more or less of distress among the people.' I think we may agree on that point. 'The consequence is that the public mind is directed to the government for relief;' and he goes on to say that no relief can be furnished by the government. What does he offer? What is his measure? He proposes (I do not say that it is not at this time a necessary measure; perhaps it is, in the present state of the country), the issue of \$20,000,000 of paper money, in the strictest sense of that term; money which is to be paid out by the government for debts due by the government; money which is to pass by delivery; which is to circulate from hand to hand; which is inconvertible into specie; which will not anywhere command specie, except the voluntary exchange of it for specie. In every sense of the term, by every definition, it is paper money in the old sense. That is what the government now proposes to issue. I wish it, furthermore, to be understood that this issue of paper money is to be locked up, as I suppose, in the sub-treasury. I take it that this paper money, which is to be engraved and adorned so as to bear the semblance of bank bills, the semblance of currency and act the part of a currency, is to be locked up in the sub-treasury, or is to be exchanged for specie which is to be locked up there. This and the sub-treasury are to act hand in hand, the two are to go together. Is not that an abandonment, temporarily, of

the entire sub-treasury system." "We were told that the sub-treasury system was to prevent all contraction or expansions; that it was a great conservative power; that it was to prevent over-importations; that it was to protect our country; that it was to save the banks, or at least to save the government." "It has shown itself unable to prevent expansions, unable to prevent contractions, unable to prevent over-importations, unable to prevent the ruin and distress which have spread far and wide throughout the country. Furthermore, it has failed in that last benefit which it was said it would at last confer; it has been unable to save the government; and we now find, under this sub-treasury system, the government unable to collect its duties and in a bankrupt condition. We see, in the greater portion of the country, the warehouses filled with foreign importations which an impoverished people at this very time are unable to consume." "In that part of New England from which I come, in the state of Connecticut, the troubles of the day are by no means over. Indeed, sir, if not at their height and intensity, there is at this time no symptom of recovery. The only want of money is for liquidation for the payment of debts. The banks have money. They can loan money to-day; but the difficulty with them is to find paper of a business character on which they think it safe to make their loans. There is no apparent relief thus far from what we have already suffered." "The secretary of the treasury says that no relief can be furnished; that the people, although they suffer more or less in a revulsion, must not look to the government for relief. That is the old story; it is not new." He then went on to say the tariff would relieve the country, &c., &c. "I believe if you would give the American laborer the poor privilege of doing American work, you will at once restore this country to prosperity."

Collamer, of Vermont, said: "The act of 1847 authorized the borrowing of \$23,000,000 as a loan, and the provision for treasury notes was interwoven with the other provisions for a reason then given and which I well remember. The treasury note system was shaped with a view of enabling the common people to get hold of a portion of the loan; for it was provided in the law that whoever held treasury notes might fund them in the general loan. I say then, that that law furnishes no precedent for this, because the object now is avowedly to issue these treasury notes to circulate from hand to hand and they are to be put at a very small

rate of interest for that purpose. The object (of making them pass by endorsement) was, that the treasury notes should not be regarded as a circulating medium, but as bills payable to order and indorsed by the payee, and to be used in that way in order to escape the charge of having in any way over-ridden the provisions of the sub-treasury system." Under the advice of the president's message, Collamer said, the states should "take nothing but hard money for taxes, and pay out nothing but hard money. By-and-by a pinch comes, and they cannot get hard money. Suppose they follow the example of the general government, and issue bills; what are they? Nothing but bills of credit, which the states are forbidden to issue. If you can give a man a treasury note, payable in a year, what is it? It is a bill on the credit of the government, for which the faith of the government is pledged. When the states comes to this point, the constitution interposes; they cannot follow the president any further; he leads them into a slough; he gets himself out of it by asking congress to exercise its power of issuing bills of credit, which the states are forbidden to do. I do not make these remarks with a view of finding fault with the independent treasury system or a hard-money currency; I am merely endeavoring to show how palpably and grossly that system is violated by this bill. Is a different system of ethics to be applied to the dealings of the government with its creditors from that which is applied between man and man? Certainly not. You may say the people are not obliged to take these treasury notes. They have Hobson's choice. I say the necessities of the government's creditor compel him to take the notes, and thus you force him to get the cash for them. If he (sec'y of treas.) has drawn money out of the treasury and applied it to the redemption of the public debt, he acted no doubt with a view to relieve the country. It did that in some measure. He supposed, perhaps, that by anticipating the debt due in 1868, and paying it now at a premium, he might possibly so far relieve the commercial community as to enable the importations to go on, and thus keep up the revenue. In that object he has failed. I am not finding fault with him for not having had more foresight than anybody else in the country. This result has come upon us unexpectedly; but I say that, when it has come, there should be fair dealing, and consistent conduct. Now, what is proposed? It is said that the object is to pay debts that we now owe. We have not the money. Then borrow it like an

honest debtor and pay interest for it. Go and buy gold, put it into your treasury, keep up your sub-treasury, do not abandon your constitutional currency. The issuing of these notes is an abandonment of the constitutional currency, and the more you make them circulate the greater is the abandonment. You deny the power to establish a national bank. We once had such a bank, with a capital of \$30,000,000, and you said it was a great monster. Here you are making a national bank without checks, without any hypothecation of securities, based on nothing except the public credit. If we borrow four or five million of dollars, we shall be no more in debt than we were a year ago; we shall draw money from where it is now hoarded, and by being put in circulation in payment of demands against us, it will go to relieve the people by putting in circulation money that is now sequestered from use. These treasury notes, however, give no relief; they do nothing but run round and round in the circle of the treasury business; they destroy your system of constitutional currency, and leave your creditors to whom you pay these notes, to get them cashed as well as they can. To such a system I am utterly opposed."

Hunter replied, denying any abandonment of hard money or the independent treasury system, or admission that there was not enough specie in the country, and said: "It is not as a monetary measure that the treasury note is resorted to, but because it is the cheapest mode by which we can borrow money; and it is not only the cheapest mode by which we can borrow money, but, incidentally, it will relieve the community more, or, to speak more properly, it will operate less onerously on trade and commerce than any other mode by which we can borrow money. Nor do we propose to force it on anyone. Is it not specially provided that it shall not be paid to any creditor of the United States except at his option. And is it likely that there will be any necessity for the government to force it on its creditors. This is one form of using the government credit; it is the cheapest form; and if it follows, as an incidental consequence, that we relieve the community more by using the government credit in this form than any other, are we to be accused of a departure from principle, because we do not suffer that consideration to drive us from what, in other respects, looking only to the good of the treasury itself, is the best mode to which we can resort? Surely not."

Davis (Miss.): "I think the advantage of a loan for a short

time is, that we are soon to be out of debt. I hope that with returning prosperity, we shall soon have revenue enough to support the government."

Collamer (Vt.): "Does the gentleman propose to borrow himself out of debt?"

Davis: "No sir, but I expect, with returning prosperity, to have revenue enough to pay the loan. When I addressed the senate before, I was under the impression that these notes, like the notes issued under the act of 1837, must be assigned from hand to hand as long as they traveled; that they were never to pass as money—never to be in the nature of bank notes passing by delivery. It is exactly in that view that I think it is to relieve the country.

* * * When confidence has been lost, when there has been a failure of the incorporated institutions to answer the purpose of furnishing money on the credit of individuals, then the government comes and draws the money from those places in which it has been locked up, throws it into circulation again, and thus in the ordinary transaction of its own functions, brings relief to the community. This is the only mode in which the government can properly interpose, and it is an effective mode at a time like this, when specie enough is locked up in the country to answer all our wants, and it merely requires some hand strong enough to draw it out and throw it into circulation."

Trumbull referred to them as "an issue of shinplasters." "I am opposed to issuing this paper currency." "I prefer, in the first place, that we should borrow the money, rather than issue a paper circulation."

Pugh, (Ohio), said: "It does seem to me this bill, as it now stands before the senate, affords a very serious ground of indictment against those of us who profess the principles of the Democratic party. Here is a proposition to issue \$20,000,000 of shinplasters." "If it is to become a circulating medium, it is worse than any bank note, which the president has denounced in his message, for there is no provision for its redemption." "If the payee is to let them pass by delivery, they are nothing but bank notes, and they are bank notes, without any three dollars in coin for one of paper to redeem them."

King, of New York, said: "I shall vote for this amendment [to issue no note less than \$100]. I regard it as one of the best tests which have been presented to determine whether this is a bill

to bring money into the treasury as a loan, or whether it is a bill to make a treasury bank, and authorize the treasury to issue paper for circulation." "I think of all the paper which is to circulate in this country as money, the worst is paper based on the credit and faith of the government, and not upon coin. I would rather have the responsibility of individuals than that of the government, because they are limited by the courts, and by their liability to be brought up by a stronger power than themselves, and they become insolvent there is an end of them; but the government has no end to its credit except an utter prostration like that which resulted from the issue of continental bills. The issue of government paper does not require means; by a simple determination of the representative body of the legislature, to increase the amount of their circulation, the capital of the bank can be doubled. It depends on the judgment and opinion of the legislative body, and I think that the most dangerous mode in which paper may be issued for circulation. It has been tried by most of the governments of the world and has failed. The bill itself * * * looks to me as if it had been framed for the purpose of establishing permanently a treasury bank." "My objections to this bill are the bank features of it, and I shall therefore, as I think I should under any circumstances with these provisions remaining in it, vote against this bill." "I was opposed to the old bank of the United States, although it was in the hands of individuals; and yet I am free to say that if we are to have a bank, I doubt very much whether it would not be better that it were in the hands of individuals, and not have the credit of the government complicated with it in any way. But I am opposed to any bank of the United States, in any shape or form that issues paper." "I know that those [treasury notes], of 1847, were fundable into permanent stock, which was another feature that looked to the creation of a loan instead of the issue of paper for circulation."

Pugh said: "I now offer an amendment * * * to insert 'and by subsequent special endorsement of each holder.' The object is to prevent the circulation of this paper as currency."

Hale said, objecting to the amendment: "I think it separates the measure entirely from that character of relief to the commercial community which may incidentally be given to it by a loan in the form in which the chairman of the committee on finance has presented it. It is the fact that, while it has a tendency to relieve

the necessities of the government in the shape in which he has presented it to us, it has also a tendency to relieve the necessities of the commercial community, which commends it to my judgment. If you strip the bill of this feature, you make it simply a relief for a distressed government, ignoring entirely the fact that there are distresses in the commercial community.

Hunter said: "If we adopt this amendment, it seems to me it would be better to provide for a loan at once, because we destroy that which enables us to raise money more cheaply by treasury notes than by a loan.

Bayard objected to the amendment because it would require every government officer to be sure of every endorsement on every note or take the risk himself. "It is no sound objection to this bill that it proposes to issue a paper currency." "You may, if you choose, call these treasury notes, 'shinplasters,' * * I care not." "Surely it is wisdom to put them in that form which will give them their highest value. Much as I am opposed, and I think I am quite as much opposed as the senator from Ohio, to a paper currency, strongly as I believe it would be better for us if no bank note, or any other kind of note which could pass as money, were ever issued for a sum less than \$100; yet in this emergency, with a view to raising a loan, not looking at it as a permanent mode of raising revenue or contracting loans for this government, I am willing to vote for this issue of treasury notes."

Pugh said: "The senator from New Hampshire [Mr. Hale], says he will vote against my amendment because it will not relieve the community. What relief does the community want? What relief can this government give the community by issuing a parcel of irredeemable paper dollars? Will that relieve the community? It never relieved any community, it simply prolonged the present unnatural state of affairs, when men who have exhausted their means are endeavoring to keep up their expenses without having resources sufficient to pay their debts." "The old proposition comes back. The senator from Virginia wants it, though he does not avow it, because he wishes to make it a circulating medium. The senator from New Hampshire wants it because he wishes a circulating medium. Then I say it is worse than bank paper." "If you want to issue paper money, call it paper money."

Davis of Mississippi said: "I shall vote for the amendment of the senator from Ohio, for the simple reason that I concur in the

propriety of meeting that which has been treated as objectionable. I wish to prevent these notes from circulating as money; to strip them, as far as possible, of the character of bank notes; to make them investments which will be sought for by those persons who now hold specie." "I do not fear that there will be any special difficulty in the public officers determining whether the successive endorsements are valid or not." "It may occur that this treasury note will fall into hands surreptitiously, * * * and [be] paid when fraudulently presented; but that will be an extraordinary case for which we can provide after it occurs. I prefer to encounter that hazard rather than make this government the issuer of a paper currency. I believe there is money enough in the country—and when I say money I mean gold and silver—to answer all the wants of commerce. It only requires to be thrown into circulation." "Against paper money issued by the federal government, I would raise my protest in every form. It was not contemplated by our fathers, who were a hard money race. The men who instituted this government gave congress power to borrow money. This is one form of borrowing money, or otherwise I would not vote for it. Make it in any degree an issuance of paper money by the federal government to circulate throughout the country, and I would vote against it." [The amendment was rejected. Davis voted against the bill.]

House of Representatives, Dec. 19, 1857. Ritchie (Penn.) said: "Theoretical Democracy disdains treasury notes; it would touch nothing but gold and silver; practical Democracy will use whatever it can get to answer its purpose. If it has no gold or silver, it will use treasury notes; * * * they come into the house here and propose that these notes are to be kept in circulation as bank notes, and nothing else."

Banks said he would vote for the measure, "if the government of the United States is, at this time, in such a condition that it can obtain no relief for its immediate necessities and wants except through the issue of treasury notes," but said that the issue of said notes "had been declared by the eminent men of all parties from the beginning of the government, as inexpedient and dangerous in character, and false in principle."

Millson (Va.) defended the Democrats from Ritchie, who he said "seemed disposed to taunt the Democratic members with a seeming or imputed inconsistency—for it was rather an imputed

than even a seeming one—in protesting in their theoretical expositions against a paper currency, while practically they are found voting for the issue of treasury notes, which he described as a new form of a paper currency.” “Is he an advocate of the hard-money system? I do not think he is.” “What sort of resemblance is there between treasury notes bearing interest and a paper currency? Does not the gentleman know that there is scarcely a feature of resemblance between these treasury notes of the government and what he calls a paper currency?” “Is this a paper currency? It is but the borrowing of money; it is but the payment of the public creditor by giving him an acknowledgment of his debt, and promising to pay him interest for the delay of payment.”

Washburne of Maine, said: “Why is it that these men who have been always heretofore opposed to paper currency, paper money, and paper promises in any form and in all forms, are now in favor of it?”

Bishop (Conn.) said: “Now the gentleman from Virginia (Millson) suggests that these treasury notes will not go into circulation.” “I believe they will go into circulation, and that they will be made a medium of exchange throughout the country, and that the business of the country will be greatly benefited in consequence; and it is for that reason as much as for any other, that I prefer the issue of treasury notes to the issue of United States stocks, as a measure of relief.” “For while the issue of these notes will be an advantage to the government, I know that so far as my section of the country is concerned, they will be of wonderful advantage to the business of the state.” “There may be money in the country, but it cannot be made available for the benefit of the business men of the country, except at a high rate of interest.”

Covode asked Bishop, “Whether the simple reason why this gold is not in circulation is not that paper money has taken the place of it? Then if you put more paper money into circulation, by the issue of treasury notes, do you not drive more gold out of circulation, and not only out of circulation, but out of the country?” Bishop replied that if the “treasury notes are the same description of currency as the paper issued by the banks throughout the Union, perhaps his argument may amount to something.” “I am no more in favor than the gentleman from Pennsylvania of making the United States government a machine for the manufacture of paper money.”

Davis of Maryland, said: "Whether the gentleman who drew this bill intended it or not, that they have accomplished exactly what the notes of the Bank of the United States accomplished." "There was money in the treasury three months ago; why was not that money kept there? It was paid out, we are told, to relieve the necessities of the country. I presume that it has relieved the necessities of the country by transferring the necessities to the government. I suppose that, if there was a necessity for specie in the country at that time, it scarcely comports with the theories of the other side of the house, or the relations of the government to the country in its financial matters, to supply that currency." "Was it that people wanted money in the country, and that therefore the government let it go? If so, then I say that the government is responsible, to the extent of the money in the treasury under the sub-treasury scheme, for the necessities of the country."

Dec. 21, Abbott (Me.) said: "Gentlemen on the other side of the house and the secretary of the treasury demand the passage of this important measure upon the ground, as I understand it, of relief to the treasury—a mere relief bill." "I am opposed to this bill *in toto*." "I am not in favor of converting the general government into a great national bank for the purpose of circulating a paper medium to the extent of \$20,000,000." "It proposes

* * to flood the country with \$20,000,000 of circulating medium." "I would have this deficiency in the national treasury furnished in some better way than by converting this government into a great national bank, and flooding this country with \$20,000,000 of paper currency, in addition to what is now in circulation, to inflate the currency and aggravate the present commercial embarrassment."

Letcher (Va.) said: "It is the very fact that it is not a bank; that it does not possess the features of a bank, that it does not issue the currency of a bank, that makes it objectionable to them."

Lovejoy said: "It will be called a loan but in reality it is converting the government into a great shinplaster machine, to flood the country with an irredeemable currency, which has, as I supposed, always been as the broth of abominable things to the Democratic party and which is so to me now." "It proposes to convert the government into a great banking concern." He then went into an extended tirade against everything; said this bill was unconstitutional; that there was no constitutional power to issue treasury

notes; that the president wanted money to force the Lecompton constitution on the people of Kansas; that the Democrats were converting the government into a despotism and the treasury "into one grand banking system."

Dec. 22, Smith (Va.) said, that Ritchie undertook to demonstrate "that there was a hard-money and a rag-money Democracy on this floor."

Adrian (N. J.) said: "The secretary asks us that \$20,000,000 of treasury notes be issued as the exigencies of the government require." "The chief objection that has been raised by gentlemen upon the other side is, that if these treasury notes are allowed to issue they will add to the paper currency of the country." "Gentlemen upon the other side must not suppose that the Democratic party is opposed to banking institutions. It is not true. They are only opposed to those institutions when they do not confine themselves to the legitimate objects of banking."

Morris (Pa.) said: "I am in favor of this bill, * * * because I recognize in it the first step toward the return to a system which, as long as it existed, was adequate to all parts of the nation. It is the first step to the return to that policy with which the government commenced—the policy of providing by the federal government a national currency."

J. Glancy Jones (Pa.) said: "Objections are raised to them on one side because they will be currency, and upon the other side because they will not be currency. We want money; we do not want to furnish currency."

Stanton (O) objected to the bill: "It looks like an attempt upon the part of the government, to establish a national paper currency, to take the place of the banking institutions of the States."

Taylor (La.) said: "On all occasions when there has been a need of a temporary supply of money, it has been the practice of the government of the United States to issue treasury notes. In 1837 there were repeated acts passed for the issue of treasury notes to supply what was supposed to be the temporary necessities of the government."

Quitman offered an amendment that no note be issued for less than \$1,000, and said it would "keep these notes, as they ought to be kept, out of circulation."

J. Glancy Jones favored the leaving of it discretionary with

the secretary of the treasury to issue them from \$100 upward: "I am convinced that he is just as much opposed to making these notes current as any gentleman here can possibly be."

Seward (Ga.) said: "I prefer to see them all in \$50 notes, because I want them to go into circulation as money in the present financial condition of the country. The uses that the people make of these treasury notes, if issued, cannot effect the constitutional power of the government to issue them. They are not bank bills, because they are paper, payable twelve months ahead and bearing interest."

Warren (Ark.) offered an amendment that no note should issue for less than \$1,500: "It is to provide that these treasury notes shall not, by any possible contingency, be made a circulating medium in this country. It has been the policy of the party to which I belong, as I have understood it—it has been my policy, at any rate—to oppose any proposition on the part of this government, by virtue of which anything other than gold and silver shall become a circulating medium. I propose, therefore, by the amendment which I have introduced, to make the lowest limit for these treasury notes so large as to prevent the possibility of such an occurrence."

Washburn (Ill.): "I am opposed to the amendment * * * I am opposed to the issue of any of these notes * * *."

Banks read from a letter from Gen. Jackson, July 23, 1837; "I hope no treasury notes will be issued. The treasury drafts upon actual deposits are constitutional, and do not partake of paper credits as treasury notes, which are subject to depreciation by merchants and banks, and shavers and brokers; and will be if issued, and the government cannot avoid it."

During the progress of the debate Letcher had said: "But say gentlemen on the other side: 'we are opposed to government paper money. We dislike the idea of making the government a great bank, investing it with the power and authority to circulate notes throughout the country, while the president himself is denouncing the banking institutions of the States.' Now, I maintain, in the first place, that this bill does not create a bank. I think there is one fact that clearly and conclusively settles that point. How many of our friends on the other side, who have engaged in this discussion, are in favor of a bank of the United States? Are they not all for it?"

Lovejoy.—"No, sir."

Letcher.—“How many of you are opposed to it?”

Lovejoy.—“Three-fourths.”

Foster.—“It is an obsolete idea.”

Letcher.—“The gentleman says it is an obsolete idea. Then, I suppose, the gentlemen have embraced a new idea, and that they are now for a hard money currency.”

Foster.—“Yes, sir,”

By this debate we can see how complete a summersault congress made on the subject of paper money four years later, and how far the country still is from the point of departure.

